THE FREEMAN

IDEAS ON LIBERTY

State Subsidy to Private Schools: A Case History of Destruction

The End of Communism

Why Communism Failed

Foreign Investment Helps Americans

MARCH 1991

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IDEAS ON LIBERTY

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PERSPECTIVE

Nurturing Good or Evil

C. S. Lewis, in his preface to *The Screwtape Letters*, reminds us that good and evil do not spring up in a moral vacuum. He writes: "The greatest evil is not now done in those sordid 'dens of crime' that Dickens loved to paint. It is not done even in concentration camps and labor camps. In those we see its final result. But it is conceived and ordered (moved, seconded, carried, and minuted) in clean, carpeted, warmed, and well-lighted offices, by quiet men with white collars and cut fingernails and smooth-shaven cheeks who do not need to raise their voice."

Thus, for instance, we find the roots of Nazism in the works of seemingly genteel philosophers who long predated the rise of Adolf Hitler. And, to cite a more felicitous example, Thomas Jefferson's Declaration of Independence was inspired by the writings of John Locke, who died 40 years before Jefferson's birth.

So it is with all social movements. Good and evil take years to nurture. The lives of children yet unborn will be affected by our thoughts, our examples, our actions. It takes time to improve the world, and we won't be around to get the final verdict. But we have the rest of our lives to improve ourselves.

—BRIAN SUMMERS

Cheap Lunches

The slogan "There is no free lunch" seems to imply that we have to pay for everything we get. Here a good thought is going wrong by being applied to situations it was not designed for. This slogan was originally intended to suggest that the *government* cannot supply free lunches to *all of us*, that there is no magic trick by which we can increase our total national resources by passing laws and setting up bureaucracies; rather, we as taxpayers have to pay indirectly, sometime.

In other contexts, however, there *are* free (or below full cost) lunches all the time. None of us always pays the full cost of production for what we get. In the modern world each generation gets its lunch at a lower cost of labor than did earlier generations, because earlier generations responded to their economic problems with ingenuity and ener-

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gy. Our ancestors bequeathed us the intellectual wherewithal to get our lunch, if not entirely free, at least much cheaper than if we had to start from scratch. Compare what we "pay" to what Europeans had to "pay" for lunch and the other meals a few hundred years ago. They paid most of every day's work, whereas we can buy the same amount of raw food with a small fraction of the work time it cost them. And there is no economic or physical force, and no concept in standard economic theory, that suggests that this progressive reduction in the cost of lunch cannot continue indefinitely. We eat our cheap lunch courtesy of the sweat of our ancestors' brows in mental as well as physical labor.

—JULIAN L. SIMON
Population Matters

The Threat to Christian Schools

The Christian schools have wisely backed away from federal funds and, as long as they do so, they will be able to maintain their freedom and control. But, more and more, we are hearing Christian school administrators and pastors talk of the burden of Christian education. More than one Christian school has dabbled with the idea of reaching for the carrot of subsidies. Some have even stated that when the controls come, they will scramble to high ground. How foolish to think you can play with fire and not be burned.

Now, the government has offered a second carrot, but this time it has been extended, not to the school, but to the parents. Direct aid to the parent through tuition tax credits, the voucher system, child care, transportation reimbursements just to name a few. This is but a back door approach. If they cannot bring the school to accept the funds, they will seek to encourage the parents. They are banking on *their* need and ignorance. Once the parents have become accustomed to receiving the funds, you will find that these funds will be withheld if the school of their choice does not meet particular criteria. If they cannot control the school directly, they will attempt to control the flow of students, thus forcing those schools who will not conform out of business.

—JAMES R. PATRICK,
writing in *Foundations of Liberty*

Taxing Investments

The main cause of a near horizon in investment planning today is not investors or managers—it is government, especially the income tax system. The tax system penalizes saving relative to consumption. That encourages potential investors not to save, or, if they do save, to do so for less time than they otherwise would. With depreciable assets, the tax system's cost recovery allowances systematically favor short-lived assets over long-lived ones because the allowances have a smaller present value as asset life rises. Revenue-raising changes in the tax code, which have occurred almost yearly in the last decade, also shorten investment horizons. When these changes are frequent, long-lived investments become riskier and thus less desirable than short-lived ones. Because short-lived investments mature quickly, investors in them soon have an opportunity to reshape their plans in light of the new tax rules.

—MICHAEL SCHUYLER
Institute for Research on
the Economics of Taxation

Reader's Digest

"Another World," by Richard L. Lesher, which appeared in the September 1990 *Freeman,* has been reprinted in the January 1991 issue of *Reader's Digest,* as part of the feature titled "That's Outrageous," pages 163-165.

A False Prosperity

War prosperity is like the prosperity that an earthquake or a plague brings. The earthquake means good business for construction workers, and cholera improves the business of physicians, pharmacists, and undertakers; but no one has for that reason yet sought to celebrate earthquakes and cholera as stimulators of the productive forces in the general interest.

—LUDWIG VON MISES
Nation, State, and Economy

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THE FREEMAN
IDEAS ON LIBERTY

The Terrible D-Word

by Donald G. Smith

As a person who makes his living with words, I am often disturbed by the misuse of a word. The word *articulate*, for example, does not mean knowledgeable, but only that a person is easily understood. *Infer* and *imply* are often used interchangeably, even though their meanings are quite different. *Irregardless* goes a step further by having no meaning at all.

These words, however, are only minor annoyances when compared with the over-used and misused *discrimination*, the terrible d-word. It is a far more serious breach of linguistic rules because it has the backing of government, which is another case of federal, state, and local governments going where they have no business being.

The once legitimate word has become so pejorative that one can imagine a group of street thugs taking it into a back alley and working it over until it is time to call for an ambulance. When used today, it is accompanied by excess amounts of sneering and finger waggling, all with government blessing, so that it is not only an accusation but an indictment.

The simple truth is that discrimination is not always a bad thing, only something that can, under certain circumstances, be undesirable. There is bad discrimination and there is good discrimination. Let's call them "X" and "Y" discrimination. "X" discrimination can be demonstrated by telling a non-white person that he or she cannot use a city facility when that person's taxes are helping to pay for it. It is indeed the proper function of government to enforce anti-discrimination laws in this instance and open the use of public facilities to all citizens.

"Y" discrimination is another matter entirely because it exists almost exclusively in the private sector. An example would be an all-male organization barring females from membership, or an all-female organization barring men. In these instances it is not the function or the business of government to enter the picture at all, and most certainly not to pressure or threaten such groups to change their membership policies.

In the case of private organizations—clubs, lodges, associations, and interest groups—there will necessarily be discrimination because that is the sole reason for existence. An organization is formed only to bring certain kinds of people together and therefore excludes those who are not of that kind, persuasion, or general interest.

The Knights of Columbus, for example, is a fraternal society for Roman Catholic laymen. As such, it excludes from membership *all* women, *all* children, and *all* men who are not Roman Catholic. It is obvious that this organization excludes a whopping majority of the human beings who populate this planet. This is discrimination in its most blatant form, but what rational person can argue that it is wrong? The Knights of Columbus would serve no purpose if it didn't exclude these people.

An alumni organization is another example of gross discrimination because it excludes all people who did not graduate from a given university; but,

Mr. Smith is a writer living in Santa Maria, California. He is a frequent contributor to The Wall Street Journal.

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again, how could such an organization exist otherwise?

There are social clubs for tall people, which serve the very legitimate and understandable purpose of bringing together men and women who are considerably taller than the norm; but they exclude people who aren't tall. There are clubs for left-handed people, for people over and under a certain age, for twins and triplets, for women who have had mastectomies, and for ex-band singers. There is even a Jim Smith Club, which excludes everyone on earth who isn't named Jim Smith.

All of these are examples of "Y" discrimination and they all serve to bring certain kinds of people together, which is another way of saying that they exist only to exclude other people; they discriminate. They have to because it is their only reason for being, but it still isn't difficult to foresee the demise of these groups due to pressures from a government that cannot see the difference between using a public building and getting a date with another tall person.

There is truly a super-sensitivity existent in the land that, to quote the Bard, "makes cowards of us all." We generally knuckle under rather than face an accusation of discrimination, even when that discrimination is justified and in fact desirable. I well recall the sports announcer who covered a televised fight between a black man and a white man and consistently identified the black fighter as "the one in the blue trunks." The distinction was made for identification purposes only and the obvious difference was that one person was black and the other white, but the announcer preferred to play it safe with the blue trunks. Presumably if he had seen Gary Coleman in conversation with Wilt Chamberlain, he would have differentiated between the two by the color of their socks. After all, we don't want height discrimination.

We see the pervading fear of Big Brother at work when the Los Angeles Friars Club, an all-male group of entertainers, backed down and admitted a female attorney who was ready to take them to court. We see it today in the presence of female reporters in male locker rooms, when owners of professional sports teams can no longer decide who will, and who will not, be admitted to their own facilities. We see it in hiring quotas for private businesses, in committee memberships, and even in Little League. We see it in the regular use of such contrived, and rather stupid, words as *chairperson* and *spokesperson*.

It is time, I am convinced, to call a halt to all of this nonsense by the simple and well-tested American practice of telling government that we have had enough and that we want the executive, legislative, and judicial branches to do those things that they were created to do and to get out of our personal lives. As a recent First Lady so succinctly put it: just say no. □

IDEAS ON LIBERTY

Discrimination

Many of the leading problems of our day, I believe, stem from a thought-disease about discrimination. It is well known that discrimination has come to be widely scorned. And politicians have teamed up with those who scorn it, to pass laws against it—as though morals can be manufactured by the pen of a legislator and the gun of a policeman. . . .

If a man is to continue his self-improvement, he must be free to exercise the powers of choice with which he has been endowed. When discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle. Since man was given these faculties, it necessarily follows that he should use them and be personally responsible for the consequences of his choices. He must be free to either enjoy or endure the consequences of each decision, because the lesson it teaches is the sole purpose of experience—the best of all teachers.

—F. A. HARPER

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A Chat with a Mass-Man

by Michael Reed

"The only thing a psychically-human being can do to improve society is to present society with *one improved unit.*"—Albert Jay Nock

A short while ago, my partner and I were invited to attend a gallery opening for an artist friend of ours. By the time we arrived at the gallery, he had already happily sold several pieces. This did not come as a surprise as our friend is blessed with a marvelous talent. Indeed, we found his new paintings to be sublime, almost dream-like creations that juxtaposed soft air-brushed tones with intensely vibrant hues.

After our tour of the new works, our friend invited a group of us over to his studio for a small, post-opening celebration. Included in the invitation were a husband and wife, I'll call them Don and Brenda, whom we hadn't met before. As we wandered back to the studio, we reveled in one of those rare, perfect summer evenings—the warm, lazy breeze whispered its lulling promises, while the huge orange moon hung in magical suspension at the end of the boulevard.

When the cork on the champagne was cheerily popped, we all toasted our friend the artist and warmly congratulated him on a successful opening. Over in the corner, I could hear Don telling someone that he had been out of a job for six months and that his unemployment was running out that month and he was getting worried. But, he added with a sly smile, it had been a *great* summer—implying that he had been using the unemployment money for goofing off and now he was in a spot. During the course of the evening I learned that Don had been publishing a small, local magazine for a few years and that he had decided voluntarily to stop publishing it and "pursue other interests."

The conversation turned to recent books, music, and films. The topic of some of the top-notch arts programming on cable television came up. Brenda and Don, who had recently returned from visiting Brenda's family in Europe, began complaining that in her country the government was going to allow television to become "commercial." They lamented that this was going to be the end of good TV over there.

I inquired about the current setup and discovered that the government had limited broadcasters to just two channels. As I understood it, people pay for subscriptions to broadcasting companies who produce various programs. These programs are then divvied up between the two channels. However, it seems that sometimes a considerable number of political debates are broadcast and that both of these channels simultaneously broadcast the same debate, but in different languages. In addition, so they can view this wondrous assortment of channels, everyone needs to buy a license to own a television set. The license fee is, of course, another way of saying "tax."

I asked what was wrong with having commercial TV and they said they thought the government shouldn't allow it because it was, well, it was just obviously a bad thing... just look at how lousy TV is in America because of the commercialized aspects (totally ignoring the earlier remarks of how good some of the "commercial" cable TV programs are). Of course, I had to ask why the government had to get involved at all.

Mr. Reed is a technical writer in Portland, Oregon.

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Don aggressively replied that government is a good thing and that the concept of big government shouldn't be scary to people, but instead they should be scared of big business.

I said it seemed to me people should be wary of big business when it colludes with the government to receive special treatment that effectively allows them to remove themselves from market competition—much to everyone's detriment.

As the discussion continued, it became apparent that Don had it all worked out, but I found his arguments riddled with inconsistencies ("sinking in a sea of buts," Leonard Read used to call it). Government is good, big business is bad—but only as Don defines government and big business. It seems that the idea of big-business McDonald's (which sells food he doesn't care for) disgusts him, but big-business airlines are O.K. because they'll fly him to Europe. As for government, give him socialism. Yes, people are rejecting the oppressive socialist governments all over Eastern Europe, but, in his estimation, they haven't totally rejected them, which, of course, is good.

We kept verbally thrusting and parrying for a while and finally he demanded to know how I thought things should be. So, I told him. People should be free to do anything they wish so long as it is peaceful. The government's job is to uphold voluntary contracts between individuals and to protect life and private property. Period. If people want to set up commercial TV stations, let 'em. Nobody's forcing you to watch them.

At this point, all conversation in the room had stopped and I could feel an almost electric sizzle in the tension our discussion was generating. I saw that the questions being asked of me were of the tedious "what is your plan for creating this society" variety. I've noticed that people who want to hear master plans are not interested in the prospective creativity of individuals.

And then I felt the peaceful, calming influences of Albert Jay Nock and Leonard Read. I smiled and said that obviously we had great disagreements which we would probably never settle, most certainly not tonight. Someone breathed a sigh of relief and said, "How did we get on that topic anyway?" The conversation quickly veered off onto other matters.

Later, as I reflected on what had been said and why, Mr. Nock came to my assistance again. I realized that Don is a prime example of what Nock called a "mass-man." He is like a child who "knows everything" yet still needs to hang on to the apron strings of a parental government—a government that tells him what is best—and, when he doesn't get his way, thinks it is perfectly fine to throw tantrums in the street. The mass-man seems unable to comprehend the ideal of the free individual.

As Mr. Nock so eloquently put it, "The mass-man is one who has neither the force of intellect to apprehend the principles issuing in what we know as the humane life, nor the force of character to adhere to those principles steadily and strictly as laws of conduct. . . . He appears as not only weak-minded and weak-willed, but as by consequence knavish, arrogant, grasping, dissipated, unprincipled, unscrupulous. . . ."[1]

Because of their inconsistent master plans the mass-men do not (or cannot) understand that their plans are not the point at all. As Leonard Read affirmed, "Neither we nor anyone else can design or draft or organize a good society. No one person nor any committee can make even a pencil; a good society is more complex than that! A pencil or a good society or whatever is but a benefit or dividend which flows as a consequence of antecedent attention to one's own emergence toward excellence."[2] Who knows what unlimited wonders a society of peaceful, creative individuals will devise? But talk of voluntary peaceful agreements between individuals pursuing their own creative interests whirls around the mass-man like so much cotton candy that instantly melts when it meets the inferno of his coercive convictions.

Later that evening, Don unknowingly weakened his case further with a final inconsistency: he and Brenda were gushing over how wonderful Disneyland is and what great things are being done by Walt Disney Productions. Somehow I had the presence of mind to refrain from pointing out that Disneyland and Walt Disney Productions are certainly two of the scariest big businesses on the planet. □

1. Albert J. Nock, "Isaiah's Job" reprinted in *Notes from FEE* (Irvington-on-Hudson, New York: Foundation for Economic Education, July 1962).

2. Leonard E. Read, *Anything That's Peaceful* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1964), p. 237.

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State Subsidy to Private Schools: A Case History of Destruction

by John Chodes

This is a story of how government aid entangles private schools in public policy and eventually leads to state control. It is especially pertinent today because many parents with children in public schools are lobbying state legislatures for help: tax credits, vouchers, or even direct subsidies to put their children into private schools. Parents hope that they can obtain government aid and still maintain control over their children's education.

History shows that this is an illusion. State subsidies to private schools create legal conflicts that lead to their eventual takeover or destruction. The conflicts arise from inherent contradictions between parental values and public policy.

Our story begins in the 1790s in the slums of London. A young Quaker, Joseph Lancaster, was excluded from an education monopolized by the Church of England because of his religion. His father taught him at home. Embittered, Lancaster conceived a radical, cheap method for schooling the poor and disenfranchised such as himself. His "monitorial system" was so effective, it spread around the world.

Lancaster had the brighter children (the monitors) teach the slower, in order to cut costs. This also developed their leadership ability. There was one monitor for every ten students. Because of this small-group interaction, no one was bored, even though the subjects taught were more than the basics. They included algebra, trigonometry, and foreign languages.[1]

Lancaster's methods brought out students' entrepreneurial spirit. They were paid to be monitors in "merit badges," which were like Green Stamps, having considerable value when redeemed in bulk. Students purchased school goods and services with them, learning marketplace dynamics.[2]

The system was profitable even with a tuition fee of only four shillings a year. Lancaster felt it was critically important that the students, no matter how poor, pay so as to strengthen their motivation to succeed.[3]

Four shillings was a fraction of what it cost to operate church-run or private schools. Lancaster, however, had cut costs to the bone. Students wrote on slate instead of paper. Paper was expensive, slate indestructible. One book per subject per class was used. Each page was separated and placed on a board suspended over a circle of ten students. Each group studied that page as a lesson. Then the groups rotated. Lancaster even designed prefab school buildings that could be constructed in days.[4]

The State's Monopoly in Education

Since the Enlightenment, all governments, whether monarchies, democracies, or dictatorships, have considered education a legitimate

John Chodes is the Vice Chair of the Libertarian Party of New York City.

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arena for state monopoly. Values, the rules of citizenship, respect for authority, and homogenized cultural diversity were imperatives for stability.

Freedom lovers, on the other hand, saw the danger of extending despotism through this process. Also, church and private school systems perceived that state-funded education would undermine them, since their values often were at odds with government policy.

Due to these fears and the large taxpayer expense, government-financed schools advanced slowly in the United States. Then the Lancaster system attracted state attention because of its extreme economy. Taxpayers could accept its small burden.

The negative aspect for government was that Lancaster's methods produced leaders. They were entrepreneurs, not bureaucrats. To the state, "good citizenship" meant restrictions on self-assertion.

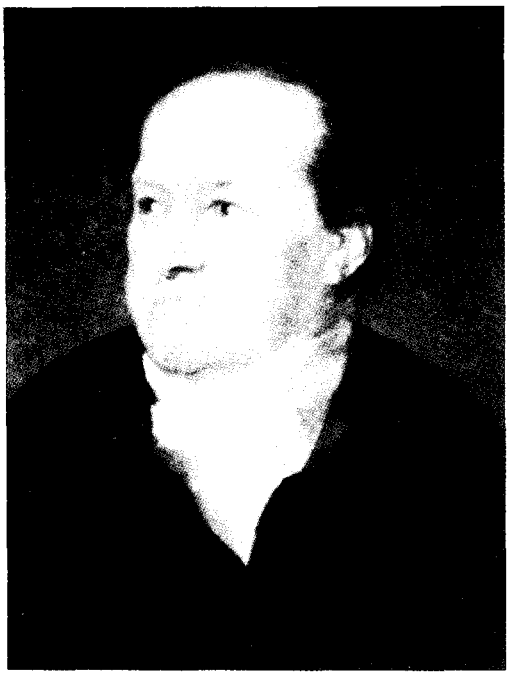
In 1805 New York City was an isolated island of educational choice and freedom. It had many private and church schools. Some were free, some inexpensive. It had no state-funded common schools. It was surrounded by a government near-monopoly of education throughout the rest of the state, financed via the School Fund, which pressed for school uniformity throughout its domain. The city resisted.

There was an illiteracy problem in New York City associated with poverty. Children not affiliated with a religious or charitable organization often didn't attend school. In April 1805 several prominent philanthropists met to discuss an educational plan to reach these youngsters. Benjamin Perkins had just returned from England where he had seen the Lancaster system in operation. He felt it was perfect for New York. The others agreed.

They incorporated under the title: "A Free School for the Education of Poor Children who do not Belong, or are not Provided by, any Religious Society."

Its charter directed the Society for a Free School to seek private contributions. Unfortunately, this meant disregarding Joseph Lancaster's original insights. Student payment and profitability were cast aside. This diffused the advantage of the marketplace and self-motivation. Charity became the philosophical basis.

Initially, contributions kept the Society free from political influence. In the first year enough money was raised to open a school and hire teachers. There was no thought of or need for a state subsidy.[5]



De Witt Clinton

The Influence of De Witt Clinton

The private nature of the Society for a Free School changed radically when De Witt Clinton was elected president and began to assert his influence. Clinton (1769-1828) was one of the most famous political figures of his day. He was a 10-term mayor of New York City and also served as the state's governor. He promoted state intervention in education as an "indispensable foundation of democracy. . . . the first duty . . . and the surest evidence of good government is the encouragement of education . . . that will watch over the liberties and guard them against fraud, intrigue, corruption and violence."[6]

Clinton had heard of Lancaster's early success and the low cost of his methods. When Benjamin Perkins went to England on business, it was Clinton who asked him to investigate how the Lancaster method worked in practice. Perkins' report created the Society for a Free School along Lancasterian lines.[7]

Clinton attached himself to the Society from the outset. The trustees were only too pleased to have

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him participate. His prestige made it easy to raise contributions.

Even though the Society had no need for government subsidy, Clinton approached the state legislature for assistance. With his political clout, the Society received state aid. The trustees believed his view that it was important to be in the good graces of the government.

The initial $4,000 grant toward building a school and $1,000 for expenses was less than had been raised privately. Yet even this small subsidy required changes in state tax policy. To pay for it, the levy on taverns and liquor was raised.

Then Clinton showed his true colors. In an 1807 speech at the opening of a second Society school, his views were diametrically opposed to the Society's stress on student self-assertion and entrepreneurship. Clinton blamed the business ethic and wealth for moral depravity and poverty. He stated that schools should perform a social, not a personal function. Now that the state had a toehold, Clinton altered the Society's position to be more like the government's.[8]

Subsidy Alters Ideals

Subsidy was never needed, but subsidy radically altered the fundamental stance of the Society for a Free School. State aid provoked a charter revision which extended the Society's operations to "all children who should be the proper objects of gratuitous education." Then the name was changed to the Free School Society. No longer were the poor and disenfranchised the targeted student group. The new aim was universality. This was the state's position through its common schools, putting it on a collision course with both the common and the religious schools. The original charter's careful wording (". . . for the education of poor children who do not belong, or are not provided by, any religious society") had avoided conflict with other systems.[9]

The new charter meant another change: education was no longer important for employability and self-improvement. Now the Free School Society (F.S.S.) reflected the state policy of education to "enlighten" voting habits: "[What educational system] is best adopted to meet the wants of the state? In our country . . . the ballot box . . . a power, capricious and mighty . . . which rolls over the land with the tremendous pressure of an ocean swelling on and overbearing every obstacle. . . . such a power must be controlled and guarded or its exercise will be the destruction of everything dear to the citizen. . . ."[10]

Secular vs. Nonsectarian

In 1813 the Free School Society accepted a portion of the state's School Fund. This proved to be another crucial error, allowing New York State to extend its power into the city. This made the F.S.S. more like a government agency, formalized by having the mayor, city recorder, and first judge of the city on its board of trustees.

Superficially, it seemed that the state and the F.S.S. were in agreement on curriculum policy. In fact, they were completely at odds. This disagreement, never reconciled, would finally bring down the Free School Society.

The School Fund was created to develop the state's own common school system. Curriculum was mandated along secular lines. The F.S.S. taught its students a nonsectarian point of view. This difference generated the conflict of public versus private values in the legislature.

Common schools were compelled to exorcise any trace of religion or partiality in values from their curricula. Free School Society schools provided the basic moral tenets that all Christian sects could agree upon, but which favored no single denomination. (Religious schools that followed a specific doctrine were labelled "sectarian.")

Both secular and nonsectarian schools tried to be universal. But the state legislature wondered: Can the Free School Society receive the School Fund with no legal objection, or is it simply another Christian sect? If the latter, then state aid would be unconstitutional.

No matter how the F.S.S. twisted to adjust its position to the state, it couldn't be done. A major collision was inevitable. John Spencer, Secretary of State of New York, said the F.S.S.'s curriculum values would "endlessly be a source of irritation and complaint" to the legislature.[11]

These explosive forces led to a confrontation from an unexpected source and resulted in a landmark legislative response, all stemming from the subsidy.

The Bethel Baptist Church ran a school for its parishioners. The trustees voted to build a second school on New York City's Walker Street.

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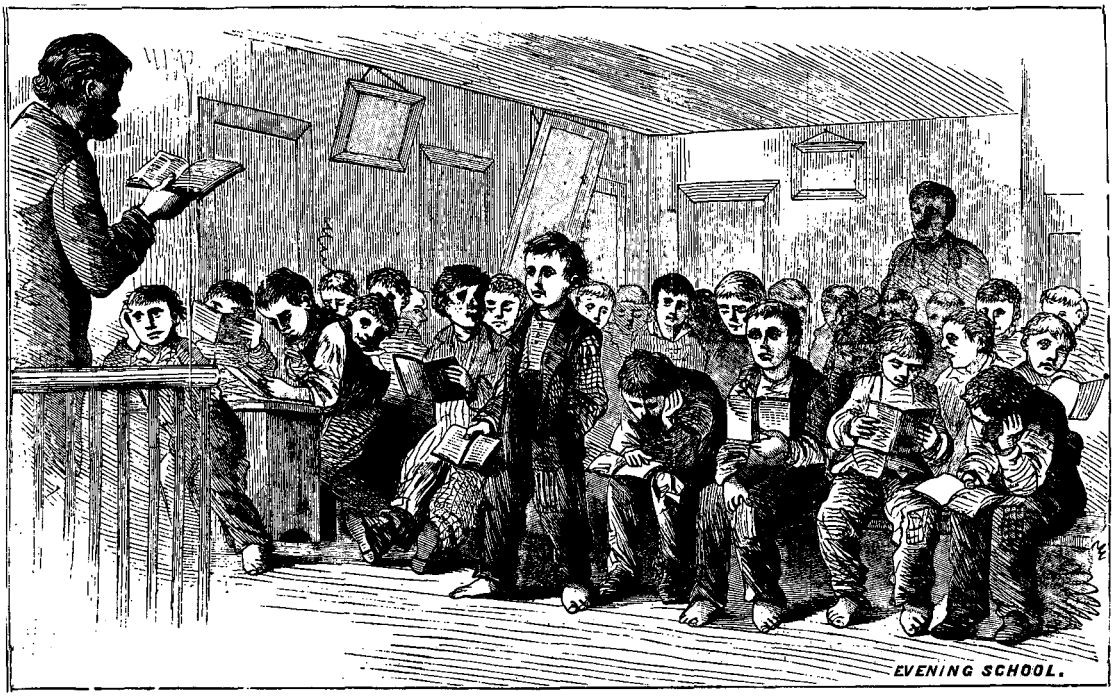

One of nineteenth-century New York's most notable charities was The Newsboys' Lodging House where orphan newsboys paid a nominal amount for their upkeep and evening school.

The Free School Society eyed the site with the same intention. Bethel and the F.S.S. each feared that a rival school in the same district would diminish its own enrollment. Contrary to law, Bethel also received a portion of the School Fund. Both sides appealed to the state for help, thus turning a simple property dispute into a legislative battle.

Initially the Free School Society tried to get the legislature to revoke Bethel's share of the School Fund by raising the issue of separation of church and state. Then the F.S.S. evoked the specter of religious intolerance, predicting that each sect would fight desperately over the remainder of the fund. "A spirit of rivalry [will] disturb the harmony of society [and put] prejudices in the minds of children," the F.S.S. maintained.

All this helped the Free School Society win the battle, but it was a Pyrrhic victory. The city expropriated Bethel's school but, in the process of pleading its case, the F.S.S. brought into the open questions that the legislature used against it. For instance, there was the contradiction of taxes for a civil purpose (the School Fund) being controlled by a private organization. This generated a landmark amendment to the School Fund bill. The state gave New York City's Common Council the power to administer the fund, bringing the common school secular curriculum into the city for the first time. The F.S.S.'s nonsectarian studies came under state attack.

In defending the expansion of secularism, a State Assembly report tried to show that secularism calmed the "dangerous passions" of religious rivalries. In fact, it drove many of the religious groups to humiliate their rivals as they fought for a share of the School Fund. State officials themselves fanned denominational hatred with comments like "ecclesiastical despotism is the most oppressive tyranny" to justify withholding monies from the sects.[12]

Now the state was in a better tactical position to overpower objections to a common school monopoly. The *coup de grace* against educational pluralism was completed by a second battle against a religious school system.

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Subsidies Lead to Strife

It was 1840. The F.S.S. (now renamed the Public School Society to show its universal character and association with government) ran 98 schools and taught 23,000 students annually.[13]

The Catholics petitioned the Common Council for money from the School Fund. Their spokesman, Bishop Hughes, said his people could not send their children to P.S.S. schools, which excluded their form of Christianity. The Catholics wanted to create their own schools with the state's help.[14]

This put the Public School Society into a legal bind, due to its entanglement with the School Fund. Committed to universal education, it was forced to accommodate the Catholics or face losing the subsidy. The attempt at compromise with the Catholics created new turmoil with the state.

The P.S.S. tried to draw the Catholics into its system by expurgating blatantly anti-Catholic portions of its textbooks. Bishop Hughes was unimpressed. In arguing to the Common Council, Hughes presented the implications of secular schools that no one had stated before: both the state and the P.S.S. were moving from a common education toward a common religion via secularism, which excluded Christianity but presented its own rational morality.[15]

The issue became more exacerbated, but nothing was resolved. Bishop Hughes escalated the struggle by shifting the debate to the state legislature. He organized a political party to put forward candidates who would vote to give Catholics some of the School Fund. This failed but it drew Governor Seward and Secretary of State Spencer into the controversy. The gradual retreat by the Public School Society turned into a rout. All the charges that the Catholics hurled at the P.S.S. were now included in Spencer's proposal for a new school bill. He attacked the P.S.S. as a closely held corporation where the taxpayers had no control over its administration. While this wasn't true, the legislators believed it. Spencer detailed the endless conflicts between the secular and nonsectarian views that would never be resolved until the state controlled all education.

Spencer mollified the Catholics by saying that in his plan, voters in each school district would choose the moral values they wanted. But since the rules of the School Fund outlawed all religious teaching, politicians, not voters, had already determined the correct ethics.[16]

In 1842 Spencer pushed a bill through the state legislature that enlarged the New York City common school system by creating two distinct branches: the secular schools and the P.S.S. schools. A new bureaucracy, the Board of Education, coordinated the two branches. Now state commissioners could inspect P.S.S. schools to see if any religion was being taught. If so, all funding would be withdrawn.[17]

By 1847 the end was at hand. The Public School Society petitioned the Board of Education for money to build a new school. The petition was denied because nonsectarian doctrines would be taught in it. Only secular values were permissible. This was the kiss of death. The city immediately absorbed every P.S.S. school and hired all the trustees as state employees. The Public School Society, which over a 40-year period had taught more than 600,000 children in New York City, was gone. Pluralism and large-scale private education ceased to exist in New York State.[18]

If we ignore the tragic history of the Public School Society we will repeat it today. Current efforts to win government aid to private schools via vouchers and tax credits will mean another cycle of legal conflict and restricted freedoms. □

1. David Salmon, *Joseph Lancaster* (London: Longmans, Green and Co., 1904), pp. 1-15.
2. Joseph Lancaster, *The Lancasterian System of Education, with Improvements* (Baltimore: William Ogden Niles, 1821), p. 23.
3. Joseph Lancaster, *Outline of a Plan for Educating Ten Thousand Poor Children* (London: Joseph Lancaster, 1806), pp. 8, 10-15.
4. Lancaster, *The Lancasterian System,* pp. 1, 2, 17. See illustrations, pp. 30-31.
5. William Olan Bourne, *History of the Public School Society* (New York: William Wood and Co., 1870), pp. xvii, 1-27.
6. Edward A. Fitzpatrick, *The Educational Views and Influences of De Witt Clinton* (New York: Columbia University, 1911), pp. 47-49, 74.
7. William Campbell, *Life and Writings of De Witt Clinton* (New York: Baker and Scribner, 1849), pp. 316-20.
8. Bourne, pp. 15-24.
9. *Ibid.*, p. 12.
10. *Ibid.*, p. xviii.
11. *Ibid.*, pp. 48-75.
12. Diane Ravitch, *The Great School Wars* (New York: Basic Books, 1974), pp. 20-21. See also Bourne, pp. 48-75.
13. Bourne, p. 359.
14. Ravitch, pp. 36-45.
15. Bourne, pp. 324-49.
16. Ravitch, pp. 46-76.
17. Bourne, pp. 521-25.
18. *Ibid.*, pp. 526-85, 592.

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Unions Drop Their Mask

by Charles W. Baird

The New York *Daily News* strike that began on October 25, 1990, has been characterized as "an old-fashioned labor-management blowout, the likes of which are rarely seen anymore."[1] Extreme overt violence and threats of violence by strikers and union hooligans against replacement workers, news vendors, newsstands, and delivery trucks have attracted national and international attention, including that of London's *Economist.* Elaborate and expensive strike preparations by the Chicago-based Tribune Company, owner of the *Daily News*, which included secret training sessions for management personnel in Florida, a fenced and guarded "phantom newsroom" in New Jersey, and a nighttime guarded caravan transporting editors to the New Jersey site along a roundabout route designed to foil union spies, have added intrigue and even some entertainment value to the tale. But the level and character of violence in this strike give one pause. It is unique in recent history. It is a return to the tactics of the bloody union battles of the late 19th and early 20th centuries.

Violence in Labor Disputes

There is nothing unusual about violence in labor disputes. For example, in the recent Pittston Coal strike, which lasted from April 1989 to February 1990, $65 million in fines were levied against the United Mine Workers for such activities as obstructive mass sit-down demonstrations, "rolling roadblocks" to stop coal trucks, spreading spikes on roads, and occupying a production plant for four days. Although the strike settlement included amnesty for all union acts of violence, the Virginia judge who imposed the fines has thus far refused to lift 80 percent of them.

Violence against buses and replacement drivers has been widely reported in the ongoing strike by the Amalgamated Transit Union (ATU) against Greyhound. In May 1990, National Labor Relations Board General Counsel Jerry Hunter authorized a complaint against the ATU in which he cited specific acts of violence, mass picketing for the purpose of intimidation, and miscellaneous picket line misconduct.

In 1983 the Wharton School published Armand Thieblot's and Thomas Haggard's massive study of union violence in contemporary labor disputes. The 20 unions most frequently involved in violence had a total of 1,844 cited incidents from 1975 through 1981.[2] The authors state that "Labor laws and their interpretations by the courts have failed to curtail or circumscribe overt violence, and application of criminal law is hampered by the collective nature of much of it and the inability to fix blame on particular individuals. The end result is that violence continues, and can occur in a modern strike or organizational drive just as easily as it did at the turn of the century."[3]

Unionists would have us believe that a strike is merely a collective withholding of labor services in the face of unacceptable terms of employment offered by an employer. But that is not all there is to it. A strike is a collective withholding of labor services, but it is also an attempt to shut down an employer by cutting off his access to replacement workers, suppliers, and customers. It is one thing for a group of like-minded workers to withhold

Dr. Baird is Professor of Economics at California State University at Hayward.

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their own labor services from an employer. It is quite another thing for them to attempt to force other workers, suppliers, and customers to refuse to do business with the struck firm. Such attempts are acts of trespass—in broad terms, acts of violence—against the voluntary exchange rights of non-strikers and the strike target.

Yet the sine qua non of every strike is the picket line, whose only purpose is to interfere with exchange activities between non-strikers and the strike target. As the United States Supreme Court recognized in the 1921 *Tri City* case, even a peaceful picket line is inherently intimidating. The Court's solution to protecting the rights of non-strikers in that case was to limit picketing to one picket per entrance. This may seem to be merely a particularly benighted ruling by a pre-New Deal Supreme Court, but the activities of the *Daily News* strikers demonstrate where the opposite view can lead. If "peaceful" acts of interference with the exchange activities of non-strikers are permissible, then strikers cannot be blamed if recalcitrant non-strikers must be convinced of the folly of their ways by using more "persuasive" tactics. The 1940 *Apex Hosiery* decision shows that even the Supreme Court can be seduced into approving acts of extreme overt violence on the grounds that the offenders are pursuing legitimate union objectives.

The Norris-La Guardia Act (1932) and Wagner Act (1935) gave unions legal privileges and immunities that were specifically designed to eliminate violence in labor disputes. Congress reckoned that if employers couldn't fight back, there would be peace. As it turned out, violence didn't abate, but it did become largely limited to the picket line, and it seldom involved third parties. With the passage of the Taft-Hartley Act (1947) and Landrum-Griffin Act (1959), unions lost some of their privileges and immunities and were forced to adopt a mask of civility and reasonableness.

Daily News Violence

In the *Daily News* strike, however, violence took to the streets to an extent unheard of in recent memory. The striking unions dropped their mask. News vendors have been intimidated, beaten, bombed, and shot. Newsstands and their inventories have been looted, bombed, and trashed. Delivery trucks have been bombed and torched, and their drivers have been beaten. Members of the general public who have been imprudent or unlucky enough to be close to acts of sabotage have been injured, and even more of them have been endangered. As Michael Gartner has aptly pointed out, this no-holds-barred attack against the newspaper amounts to thugs' attempting to tell us what we can and cannot read.[4]

James Hoge, publisher of the *Daily News*, has alleged that there had been, as of November 26, some 700 serious acts of violence. The New York Police Department claimed knowledge of only 229 such incidents, and discounted any union conspiracy behind them. Apparently the police don't want to antagonize the unions in one of the most pro-union towns in America. The *Daily News* had to hire protective services from private security companies.

On November 14, at a union rally in front of *Daily News* headquarters, AFL-CIO president Lane Kirkland blamed all of the violence on the newspaper. According to him, "the economic violence of stealing people's jobs—that's the root of anything that might be called violence."[5] If anyone other than a union spokesman had made such a claim he would have been laughed off the stage. To suggest that hiring willing workers to do the jobs that strikers refuse to do is justification for violence against people and property is ludicrous. Strikers do not have property rights to jobs they refuse to do. The employment relationship is one of contract between willing employees and willing employers. If one group of employees is unwilling, the employer has a moral and legal right to make contracts with others. Yet Brooklyn Assemblyman Frank J. Barbaro, in response to the *Daily News* strike, has introduced a bill in the New York State Legislature to outlaw the hiring of replacement workers. Only unions can practice violence with the blessing of politicians.

It Has Happened Before

The *Daily News* strike is very reminiscent of the 1892 Homestead strike. Today there is a 10-foot-high gray slab monument in Homestead, Pennsylvania, that commemorates "the iron and steel workers who were killed . . . on July 6, 1892, while striking against the Carnegie Steel Company in defense of their American rights." In fact, the Homestead strikers were violently attempting to

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deny the "American rights" of non-strikers.[6]

Like the Tribune Company, Carnegie had undertaken elaborate preparations for an expected strike. There had been a violent strike at the plant in 1889, during which the strikers drove out the Allegheny County sheriff and his deputies who were trying to maintain order. In preparing for the 1892 strike, Carnegie manager Henry Frick had a nine-foot board fence, topped with barbed wire, constructed around the perimeter of the Carnegie property. Mindful of the impotency of the sheriff three years earlier, he also arranged for 300 Pinkerton guards to be brought in, should the need arise, to protect plant property and non-striking workers.

On July 6, 1892, after the strike began, Frick tried to land the Pinkerton men at the fenced-in Carnegie dock along the Monongahela River. The strikers tore down the fence, charged the dock, and fired on the tow boat and barges that were carrying the Pinkertons. At least one Pinkerton guard was killed. The tug escaped, leaving two barges filled with Pinkertons behind. They fell under siege, complete with cannon and dynamite. There were additional deaths on both sides. At one point there was an unsuccessful attempt to burn the barges to drown the occupants. In the end, the Pinkertons surrendered. They were savagely beaten and incarcerated in a local theater. The strikers' advisory committee then proceeded to usurp all the governmental functions in the town. Like Robespierre's Committee of Public Safety in the French Revolution, the Homestead Advisory Committee policed all movement and activities of people in the town, especially members of the press. The press was censored, and several people were incarcerated simply because of what they had to say about the strike. The only thing missing was the guillotine. On July 10, Governor Robert E. Pattison activated the National Guard and took the town back from the strikers, who offered no resistance. Peace was restored, replacement workers went to work, and eventually striking workers crossed the picket line. On November 20 the union officially called off the strike. The strike was lost.

In Conclusion

History has been kind to the Homestead strikers. Their actions have been excused by most labor historians as extreme but necessary measures of self-defense in a just war against an oppressive and exploitative employer. But there is no romance left in such a view. Today, most people recognize that the employment relationship is not one of exploitation, it is one of contract. In today's competitive environment, if mutually acceptable collective bargaining contracts cannot be implemented, mutually acceptable individual contracts—i.e., union-free operation—will take their place. □

1. *The Wall Street Journal,* November 2, 1990.
2. Armand J. Thieblot, Jr. and Thomas R. Haggard, *Union Violence: The Record and the Response by Courts, Legislatures, and the NLRB*, University of Pennsylvania, The Wharton School, Industrial Research Unit, 1983, p. 55.
3. *Ibid.*, p. 4.
4. Michael Gartner, "Nation Shrugs as Thugs Firebomb Freedom," *The Wall Street Journal*, November 29, 1990.
5. *The New York Times*, November 15, 1990.
6. This section is based on my "Labor Law Reform: Lessons from History," *Cato Journal*, Spring/Summer 1990, pp. 175-209.

IDEAS ON LIBERTY

The Right to Strike

The problem is not the right to strike, but the right—by intimidation or violence—to force other people to strike, and the further right to prevent anybody from working in a shop in which the union has called a strike. When the unions invoke the right to strike in justification of such intimidation and deeds of violence, they are on no better ground than a religious group would be in invoking the right of freedom of conscience as a justification for persecuting dissenters.

—LUDWIG VON MISES
Human Action

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Old Letters and Old Buildings

by Walter Block

James Joyce's grandson Stephen burned dozens of letters written by his aunt Lucia, the daughter of the famous Irish poet and novelist.

Stephen Joyce explained as he destroyed the letters, "I didn't want to have greedy little eyes and greedy little fingers going over [these letters]. Where do you draw the line? Do you have any right to privacy?"

Naturally, Joycean scholars were aghast. They had hoped this material would provide information on anything from Oedipal relations amongst the Joyces to Lucia Joyce's relationship with Samuel Beckett.

But Stephen Joyce was determined that his family, at long last, should be offered a modicum of privacy. Lucia Joyce had spent time in a mental institution, and the young Mr. Joyce feared that the psycho-biographers would try to "re-psychoanalyze my poor aunt." Burning this woman's letters might obscure an important part of literary history, but it at least protected her reputation from further degradation.

This episode highlights the tension between the public good and private interests. Society's "right to know" all about James Joyce is in conflict with the privacy rights of his family.

Strictly speaking, of course, there is no such thing as a generalized "right to know" that applies to members of the general public. If there were, you and I and everyone else would have a legal obligation to reply truthfully to the sometimes impertinent questions of journalists, detectives, and nosy bureaucrats about the most intimate aspects of our lives. Stephen Joyce could have been fined or jailed for destroying his own private property, on the grounds that others, or "history," had a proprietary interest.

Similar conflicts over property rights arise in other areas. For example, consider the case of historical landmarks. Although not a direct analogy—there is no issue of privacy involved—whenever the owner of an historical edifice decides to renovate or demolish it, he places his interest against that of society at large. Old letters, and old buildings too, are replete with historical significance. If we can label some of the latter as landmarks, and refuse to allow the owner to destroy them, can we not decide that some individuals are of such historical importance that no one may destroy their papers and other artifacts?

If we did so, society in effect would be asserting that it, and not the famous person in question, is the rightful owner of the product of his labors. Evidently, not many would hold that we have the right to interfere with people's property rights in their letters. How is it then that we regularly interfere with their right to dispose of their own physical property—so-called historical landmarks? Something to think about. □

Dr. Block is a Senior Research Fellow at The Fraser Institute, Vancouver, British Columbia.

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Ecology, Socialism, and Capitalism

by Tibor R. Machan

The socialist—or, more generally, the collectivist—economic system has fallen into disrepute. Theoretically there were hints of this as far back as the 4th century B.C. when Aristotle observed in his *Politics* that private ownership of property encourages responsible human behavior more readily than does collectivism (as spelled out in Plato's *Republic*). Aristotle said, "That all persons call the same thing mine in the sense in which each does so may be a fine thing, but it is impracticable; or if the words are taken in the other sense, such a unity in no way conduces to harmony. And there is another objection to the proposal. For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfill; as in families many attendants are often less useful than a few."

In our time, Ludwig von Mises advanced the same general observation in more technical and rigorous terms in his book *Socialism,* although he was mainly concerned with economic problems of production and allocation of resources for satisfying individual preferences. More recently, however, Garrett Hardin, in his famous essay "The Tragedy of the Commons," argued that the difficulties first noticed by Aristotle plague us in the quintessentially public realm, the ecological environment.

Tibor R. Machan teaches philosophy at Auburn University, Alabama. His most recent book, Capitalism and Individualism, *was published by St. Martin's Press in October.*

These various indictments of collectivism, coupled with the few moral arguments against it, didn't dissuade many intellectuals from attempting to implement the system. Our own century is filled with enthusiastic, stubborn, visionary, opportunistic, but almost always bloody efforts to realize the collectivist dream. Not until the crumpling of the Soviet attempt did it dawn on most people that collectivism is simply not going to do the job of enabling people to live a decent human social life. Although most admit that in small units—convents, kibbutzim, the family—a limited, temporary collectivist arrangement may be feasible, they no longer look with much hope toward transforming entire societies into collectivist human organizations.

The most recent admission of the failure of collectivism—in the wake of the collapse of the Soviet-bloc economies—comes from Robert Heilbroner, one of socialism's most intelligent and loyal champions for the last several decades. As he puts it in his recent essay, "After Communism," "Ludwig von Mises . . . had written of the 'impossibility' of socialism, arguing that no Central Planning Board could ever gather the enormous amount of information needed to create a workable economic system. . . . It turns out, of course, that Mises was right. . . ." (*The New Yorker*, September 10, 1990)

But, not unlike previous thinkers who have seen examples of the failure of some kind of perfectionist, idealist normative moral or political scheme, Professor Heilbroner cannot quite say goodbye to his utopia. He notes that there are two ways it may remain something of a handy concept. First, it may leave us piecemeal social objectives to strive

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for—but these have always come in the context of essentially capitalist economic systems. Second, it may re-emerge as an adjunct of the ecological movement. As Heilbroner puts it:

> The ecological crisis toward which we are moving at a quickening pace has occasioned much scientific comment but surprisingly little economic attention. [Professor Heilbroner does not follow the burgeoning literature of the New Resource Economics—e.g., the works of John Baden and Richard Stroup.] Yet if there is any single problem that will have to be faced by any socioeconomic order over the coming decades it is the problem of making our economic peace with the demands of the environment. Making that peace means insuring that the vital processes of material provisioning do not contaminate the green-blue film on which life itself depends. This imperative need will affect all social formations, but none so profoundly as capitalism.

What is one to say about this new fear, a new problem allegedly too complicated for free men and women to handle? Heilbroner continues: "It is, perhaps, possible that some of the institutions of capitalism—markets, dual realms of power, even private ownership of some kinds of production—may be adapted to that new state of ecological vigilance, but, if so, they must be monitored, regulated, and contained to such a degree that it would be difficult to call the final social order capitalism."

This somewhat novel but essentially old-fashioned skepticism about capitalism needs to be addressed—if only because it is time that the technique it exhibits of undermining human freedom be exposed.

There is no justification for any of this distrust of the market, as opposed to placing our trust in a scientific bureaucracy. If men and women acting in the marketplace, guided by the rule of law based on their natural individual rights to life, liberty, and property, were incapable of standing up to the ecological challenges Heilbroner has in mind, there is absolutely no reason to believe that those challenges could be met better by some new statist means. Why should ecologically minded bureaucrats be better motivated, more competent, and more virtuous than those motivated by a concern for the hungry, the unjustly treated, the poor, the artistically deprived, the uneducated masses of the world? There is no reason to attribute to any ecological politburo or central committee any more noble characteristics than to the rest who have made a try at coercing people into good behavior.

If free men and women will not manage the environment, neither will anyone else. In fact, more optimism about the market is warranted when we examine the sources of our ecological troubles. Given, especially, collectivism's record of far greater environmental mismanagement than the mixed economies we recklessly label capitalist, there is already some suggestion here that the problem is too little capitalism. What Heilbroner and friends fail to realize or reveal is that the environmental problems most people fret about are due to the tragedy of the commons, not due to the privatization of resources and the implementation of the principles that prohibit dumping and other kinds of trespassing. With more attention to protecting individual rights to life, liberty, and property, solutions to our problems are much more likely.

The best defense of the free market rests on the realization that it is the nature of human beings to be essentially individual. In other words, the individual rights approach is most natural—it most readily accommodates nature and, therefore, the environment. If there is a crisis here, it amounts to the history of human action that has been out of line with ecological well-being. But how do we know what kinds of human action might have been more or less conducive to a healthy environment? We need to know about human nature—what it is that human beings are and what this implies for their conduct within the natural world. If, as the natural rights (classical liberal) tradition has intimated, human beings are individuals with basic rights to life, liberty, and property, then this is how they are best fitted within the rest of nature. Environmentalism must learn to trust free men and women, not the state. □

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The End of Communism

by David Glasner

The collapse of the totalitarian empire of the Soviet Union and the increasingly clear signs that the U.S.S.R. is approaching the final stages of an irreversible process of disintegration close one of the grizzliest chapters in human history. The debacle has come with a speed that has stunned almost everyone, especially those who believed that (with generous doses of Western aid) Mikhail Gorbachev could contain the forces of dissolution he had helped unleash. But now it is clear that Gorbachev is presiding over a system that is collapsing at its foundations, and no amount of outside aid can avoid or even postpone for much longer its ultimate demise.

Recent events in Eastern Europe and the Soviet Union have been startling not simply because change has come so quickly. Their impact was magnified because Communism had seemed to be so solidly entrenched in those countries that fundamental change was out of the question. The illusion of permanence, in turn, helped to gain currency for a view of Communism which held that by supplying the basic necessities of life to populations previously denied them, Communism had won a degree of acceptance, if not support, from those populations. The implication of this view was that rather than seek to dislodge Communist regimes from power, the West ought to reconcile itself to Communism as a permanent fixture of the world order.

Yet the permanence of Communism was not a universally accepted proposition. Indeed, as early as the 1920s there were some who perceived that vesting ownership of all productive resources in the state was deeply irrational, for once all markets and market prices were abolished, there would be no basis for computing or comparing values and costs and no way to determine how the available resources could be used efficiently.

This insight was first articulated by the Austrian economist Ludwig von Mises in a critical study of socialism published in 1922 (translated into English in 1936 under the title *Socialism*). So fundamental a challenge to the official ideology of the emergent Soviet state and to the deeply held faith of socialists the world over drew a quick response from socialist economists, who observed that orthodox economists had already shown how to characterize the equilibrium of a market economy as the mathematical solution of a system of equations. A similar system of equations, the socialists maintained, could just as easily be written down and solved to characterize the equilibrium of a socialist economy. Thus Mises' contention that a socialist system is inherently irrational was apparently overcome.

But in response, Mises' followers, particularly F. A. Hayek and Lionel Robbins, observed that the difficulty with central planning is not that no one could write down a formal solution to the abstract mathematical problem of efficiently allocating known resources to a given set of ends, which, in a purely mathematical sense, is indeed analogous to solving a system of equations for the equilibrium of a market economy. Rather, Hayek and Robbins argued, the problem in real life is that no one needs to find a concrete numerical solution to that system of equations.

David Glasner, author of Free Banking and Monetary Reform *(Cambridge University Press, 1989), is an economist at the Federal Trade Commission. The views expressed do not necessarily reflect those of the Commission or the individual Commissioners.*

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In practice, the market more or less approximates a solution spontaneously through the profit-seeking, self-interested behavior of many millions of firms and households every hour of every day. Market prices continually change to reflect the relative scarcities of goods and resources. When a change in supply or demand threatens to disrupt producers' or consumers' plans to sell or buy, price changes induce them to alter their plans just enough to allow their revised plans to be realized simultaneously. One may be able to say something about the formal mathematical properties of such a solution, but the number of equations to be solved and the amount of information required to give concrete form to abstract terms is so incredibly vast that no numerical solution could ever be found to that mathematical problem.

Nor would finding a numerical solution to the socialist planner's resource-allocation problem begin to solve the practical problem of coping with the overwhelming informational burden of comparing all possible uses of resources over all possible configurations of output to decide how best to deploy the given resources. Mises' original point was simply that, without a system of prices to reflect the relative scarcities of resources and their relative yields in alternative uses, socialist planners would be unable to allocate resources rationally. The attempts to rebut his argument, Hayek and Robbins demonstrated, completely missed the point.

To the general Mises-Hayek-Robbins critique of central planning no effective reply has ever been given, though not from want of trying. Some socialists suggested that a socialist system could introduce markets that would function more or less as capitalist markets do and that socialist planners could use the prices emerging from these markets to allocate resources efficiently. But these arguments failed to reckon with the question of how markets in the productive resources—capital and land—owned by the state could be established. If only one agent in the economy—the state—is legally entitled to own productive resources, how can markets and market prices for those resources be established? Without markets in which productive resources could be bought and sold, there would be no way of comparing the relative efficiency of different firms and different methods of production. Moreover, unless they had to answer to private owners of firms whose wealth depended on efficient operation, managers would have no interest in making efficient, cost-minimizing, decisions.

But, quite remarkably, the belief that the Mises-Hayek-Robbins critique of central planning had been refuted became the more-or-less accepted version of the outcome of the socialist calculation debate. That the outcome of that debate was so totally misunderstood probably stems chiefly from the strangely wrongheaded assessment rendered by Joseph Schumpeter. The premier authority on the history of economics and himself one of the outstanding economic theorists of his era, Schumpeter boldly asserted in his most famous book, *Capitalism, Socialism, and Democracy* (1942), that Mises' assertion of the impossibility of socialist calculation was refuted by the fact that socialist planning could be reduced to the mathematical problem of solving a system of equations analogous to the one characterizing a market equilibrium, and proceeded to dismiss the Hayek-Robbins rebuttal to the supposed refutation in three paragraphs of remarkable, almost astonishing, superficiality. Yet this verdict, coming from so eminent an authority as Schumpeter, whose unmistakably conservative, though highly idiosyncratic, views made it impossible to dismiss his judgment as the expression of a pro-socialist bias, seemed to settle the issue in favor of the socialists.

Although we cannot be sure what led Schumpeter to commit such a colossal blunder, one suspects that it was forced on him by the need to provide an economic basis for his book's ingenious sociological argument that democratic capitalism was regrettably doomed by its own success to be replaced by a system of socialist central planning. That argument was tenable only on the presumption that socialist central planning was a workable system, which of course is precisely what the Mises-Hayek-Robbins critique denied. It would be fascinating to delve more deeply into the sources of the pessimism that compelled Schumpeter to forecast the downfall of capitalism and its replacement by a system with which he personally had no sympathy, but that would be the subject of a much different essay from the one I have embarked on here.

The Appearance of Growth

But even Schumpeter's authority would not have sufficed to rewrite the outcome of the socialist calculation debate had it not been for the evi-

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dent capacity of the Soviet Union and later Eastern Europe and China to create seemingly sustainable economic systems, and even for a time to create the appearance of rapid economic growth. The apparent success of the Soviet Union under Stalin and Khrushchev in industrializing and in generating economic growth, as well as its impressive technological achievements in building nuclear bombs, guided missiles, and launching unmanned and manned satellites, created the illusion that a collectivist system could promote rapid economic and technological progress and might even be able to outperform free-market capitalism—an illusion to which a generation that had lived through the Great Depression of the 1930s was perhaps understandably susceptible.

Yet it is also worth noting that the Mises-Hayek-Robbins critique destroys the credibility of the statistics that purported to show rapid economic growth in the Soviet Union between 1920 and 1960, even if we assume that the underlying data themselves weren't fraudulent. Measuring economic growth means measuring total national output over time. But total output is not a homogeneous mass, so measuring it requires measuring the physical volume of heterogeneous outputs and attaching values to those outputs in order to calculate the aggregate value of all output. But since almost all Soviet production except raw materials was consumed or used internally or by other centrally planned economies, the prices at which those products were valued for statistical purposes had no rational basis. Even if the physical volume of output (say, measured by weight) was rapidly increasing, we literally have no information about what the value of that output was since almost none of it had to be sold in a free market. Enormous quantities of unusable and worthless goods could have been produced, and they still would have been measured at arbitrarily determined prices. Indeed one can easily imagine that the cost of removing and disposing of piles of worthless goods would have been added to their nominal value in computations of Soviet output.[1]

Even after the dismal reality behind the illusion of rapid economic progress in the Soviet Union and other centrally planned socialist economies had been widely exposed, central planning still seemed workable. Though it gradually became clear that it couldn't produce the consumer prosperity that Western societies took for granted and that even the more successful developing countries had attained, Communism still appeared to some to be providing for the basic needs of the masses and thus to have secured the support of the large majority of the populations under its control. Indeed, the very fact that the Soviet Union and other centrally planned systems had survived as long as they did suggested that they enjoyed an underlying popular base of support, without which, surely, the regimes would have been replaced by some other economic and social system.

How Does Socialism Survive?

The events of the last two years, however, have drained all plausibility from the notion that Communist regimes enjoyed significant popular support. What is it then that explains the survival of centrally planned socialist economies for two, three, and even four generations before suddenly collapsing of their own weight? Despite the overwhelming irrationality of an economic system lacking any method for evaluating the costs and benefits of inputs and outputs, that system must have had some features that enabled it to survive for as long as it did. Attributing its survival solely to a military establishment too powerful to be overthrown either by external or internal opponents doesn't solve the problem, because rulers who become sufficiently unpopular and discredited inevitably lose control over their armed forces and over the population at large. That simple fact is what made it possible for so many to presume that Communist regimes must have won a sizable measure of popular support, because without such support no regime could remain in power for decades, let alone for generations.

However, the failure of economic irrationality and popular hatred to dislodge the Communist regimes of Eastern Europe and Asia for as long as seven decades is paradoxical only if we ignore their totalitarian character. Totalitarian regimes do not depend on popular consent to retain power (though they may depend on it to acquire power), for they can extract consent not willingly offered. The distinction between authoritarian and totalitarian regimes is one that was once widely accepted. But the distinction became unfashionable when it was routinely invoked to justify U.S. support for undemocratic and repressive allies in implementing an anti-communist foreign policy. According to

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the influential formulation of the distinction offered by Jeane Kirkpatrick, namely that authoritarian regimes can be overthrown while totalitarian regimes cannot be, the collapse of Communism in Eastern Europe would suggest that the regimes were not truly totalitarian. My purpose here is thus not to seek retroactive justification for U.S. anti-communist foreign policy, but to make clear an analytical distinction which, however imperfect, has an empirical counterpart in the real world.

The notion that a regime—even a totalitarian regime—could survive the universal disapproval of its subjects is difficult to comprehend. Ordinarily one would assume that a nearly unanimous desire by the subjects of a regime to oust it eventually would make it impossible for the regime to retain power. After all, the regime couldn't function if all those who wished to see it replaced stopped carrying out orders. However, unless a sufficient number of people simultaneously stop following orders, it is suicidal for any one person to stop obeying. The goal of a totalitarian regime is therefore to isolate individuals: to manipulate the information available to them so completely that they do not realize that opponents are in the majority, or, even if they do realize it, that they don't trust their compatriots enough to risk exposing themselves.

The Prisoner's Dilemma

The nature of the problem of opposing a totalitarian regime is nicely elucidated by a theoretical device called (appropriately enough) the prisoner's dilemma. Developed by mathematical game theorists, the prisoner's dilemma helps us understand the nature of a totalitarian regime's control over its population and the necessary conditions for maintaining that control.

The dilemma describes a parable in which the authorities hold two suspects who, the authorities are sure, have committed several crimes together. But lacking enough evidence to convict them of the more serious charge, the authorities can convict them only of a less serious charge unless they can induce one of the suspects to confess and incriminate himself and his partner. How can a legal confession be extracted (without using force)? It can be done by creating incentives that induce the prisoners to confess in their own self-interest. This seems difficult since the self-interest of the prisoners is obviously best served by resisting all inducements to confess to the more serious charge. If they resist, the prisoners can be convicted only of the minor offense.

The authorities can overcome the self-interest of the prisoners by saying to each of them: "We realize that if you and your partner both refuse to confess you will both be convicted only of the lesser charge. However, should you confess to the more serious charge while your partner refuses to confess, we will drop the charges against you and set you free. On the other hand, should you refuse to confess while your partner confesses, we will seek the maximum sentence against you on the more serious charge and drop all charges against him. And should you both confess to the more serious charge, we will seek a reduced sentence on that charge."

Given these alternatives, each prisoner realizes that whatever the other prisoner decides, he will be better off by confessing. Thus, both prisoners confess and wind up serving a reduced sentence on the more serious charge.

The prisoner's dilemma can illuminate a wide range of social interactions in which two or more individuals are confronted with choices that, when made independently, leave them worse off than they would have been if they somehow had coordinated their decisions. But the choices reflected in the model constitute a true dilemma only if those faced with the choices are unable to communicate either openly or even tacitly with each other. Once communication becomes possible, the decision-makers may be able to cooperate in their mutual self-interest. If the two prisoners in the parable could have communicated with each other, they might have made credible commitments to each other not to confess (or perhaps to punish one who did confess) that would have enabled them to overcome the incentives to confess created by the authorities.

But direct communication and the explicit exchange of promises or threats may not even be necessary to secure cooperative decision-making in such situations. In a fascinating book, *The Evolution of Cooperation*, Robert Axelrod showed how the simple recognition that people would repeatedly be subjected to a prisoner-dilemma-like situation would lead them spontaneously to begin cooperating in their mutual self-interest by not seeking to achieve an advantage at the other's

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expense. Thus, much to the dismay of the commanding officers on both sides, German and Allied soldiers in the trenches of World War I reached tacit understandings to aim their artillery shells to minimize "enemy" casualties.

An unpopular regime is vulnerable to two types of uprisings. One is a popular revolt that draws all or part of the military to its side. The other is an uprising by a small strategically located group (a coup d'état) that paralyzes the regime and draws enough forces to its side rather than to that of the regime to enable the insurgency to take power. Both types of uprisings have one common feature: they depend on communication among individuals who must cooperate actively or passively for the uprising to succeed.

What a regime must avoid at all costs is a chain reaction in which the opposition of a single individual or a group induces others to resist its authority. That is why it is so important for an unpopular regime to create the illusion of popular support, misleading its opponents into believing that they, and not the regime and its supporters, are in the minority. There is strength in numbers. And believing in one's strength creates courage.

Control over information is absolutely necessary for such a regime. Not only would information about the true (miserable) state of affairs create further opposition, but even the existence of internal opposition cannot be acknowledged. The transmission of such information could encourage latent opposition to surface elsewhere. Individuals must be convinced 1) that opposition does not exist, and 2) that even if it did, its chances for success would be nil. If there are opponents, they must be branded as tools of external forces and condemned as traitors.

The few people who start an uprising must take extraordinary risks, because they must expose themselves in the expectation that their example will attract the support of others who will join them in defying the regime. But if too few follow their lead, the leaders will have sacrificed themselves in a futile gesture. Moreover, any organized opposition to the regime requires communication between individuals. If no one expresses his thoughts of opposition to anyone else, opposition to the regime can be virtually unanimous and yet be ineffectual.

Thus, to eradicate all possible opposition, an unpopular regime determined to stay in power must suppress any form of social intercourse—indeed any social relationship—that is outside the master-subordinate relationship it imposes on its subjects. Any social relationship is a potential threat to the regime because it allows the transfer of information that could be inimical to its interests. But more fundamentally, even the mere expression of thoughts, feelings, and emotions creates a degree of intimacy, trust, and obligation that the regime cannot easily tolerate. Even if the thoughts, feelings, and emotions are completely unrelated to the regime (which as the regime becomes more intrusive into the lives of its subjects becomes ever less likely) the expression of those thoughts, feelings, and emotions is potentially subversive because such expressions build the mutual trust that would allow people to discuss the regime and to voice (however softly and discreetly) their opposition to it.

It was thus profoundly insightful for George Orwell in *1984* to have focused his portrayal of Big Brother's destruction of all opposition on the power to force two lovers to betray each other. Any feeling of intimacy, trust, and mutual dependence by two people for each other was by its nature subversive to Big Brother and had to be extirpated.

The Threat of Voluntary Associations

All voluntary associations of individuals are suspect under a totalitarian regime and are either suppressed or subverted. Obviously no independent political parties or political associations, no independent labor unions or professional associations, no independent business or enterprise, not even an independent sports team or cultural organization can be tolerated. Religion is perhaps most threatening because the obligation it tries to persuade people to accept so clearly conflicts with the demands of the regime. Religious institutions must therefore either be suppressed outright or coopted through infiltration by agents of the regime.

Not only is every organized social association suppressed or subverted, but informal social relationships including (indeed, especially) family relationships are controlled or perverted by the regime. The regime assumes the burden of raising and educating (indoctrinating) children. It teaches them to reserve feelings of loyalty and devotion

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for the regime not their parents. Loyalty to anything or anyone other than the regime is an intolerable offense. Indeed, loyalty to the regime can best be demonstrated by betraying one's parents or loved ones by denouncing them for disloyalty to the regime.

A totalitarian regime is therefore driven to destroy all relationships that characterize a normally functioning society, because all such relationships create a context within which opposition feelings could be nurtured, articulated, and perhaps channeled into concrete actions. To convince people that any act of opposition is futile and pointless, they must be cut off from all forms of authentic social intercourse and genuine comradeship. What is left is a collection of disconnected and disoriented individuals whose only meaningful relationship is with the regime. Indeed, any meaningful relationship to which the regime is not a party is, from the standpoint of the regime, a kind of treachery.

Nothing was more critical to the establishment of a totalitarian political system in the Soviet Union and in other Communist countries than a socialist ideology that allowed the regime to appropriate to itself all private property and in the process to eradicate the pre-existing legal systems whose primary function in any normal society is to define and protect private property rights and to facilitate the voluntary re-configuration of those rights. It is the existence of private property rights that cannot arbitrarily be infringed upon by other people, or even the state, that creates a sphere of personal autonomy for individuals and allows them to engage in productive and satisfying social relationships with each other. It is only by stripping people of the protection of private property rights defined and enforced by an impartial rule of law that a regime can subject them to the totalitarian control Communist regimes required to maintain themselves in power.

Few totalitarian regimes have perfected their apparatus of repression to such a degree. The Soviet Union and possibly its Eastern European satellites under Stalin, China under Mao, Romania under Ceausescu, Cambodia under Pol Pot, and perhaps a few other instances seem to be the extreme cases.

Whether Hitler's regime ever dominated the lives of ordinary Germans as completely as Communist regimes have dominated the lives of their subjects, notwithstanding the unparalleled horror of its crimes against Jews and others specifically designated for victimization, is not entirely clear, though undoubtedly no principle of law or property ever prevented the Nazi regime from exercising whatever degree of control it chose to impose over any individual. Nevertheless, by not appropriating to itself title to all property, the Nazi regime did preserve a limited and highly uncertain personal sphere within which a German citizen had a minimal degree of autonomy. The mechanisms for controlling and manipulating the lives of ordinary Germans were therefore not as all-encompassing under Hitler as those developed under Communist regimes.

Totalitarian Controls

Indeed, precisely because Communism seeks to achieve a more all-encompassing control over the economic life of its subjects than the Nazis sought, it can more effectively deploy the instruments of totalitarian destruction of social relationships. Moreover, the more completely a regime attempts to control the economic life of society, the more irrational its decision-making becomes and the more likely that the everyday observations of individuals will reveal that irrationality. Such observations breed cynicism about and opposition to the regime responsible for such irrationality, which in turn intensifies the need for perfecting the mechanisms of totalitarian domination of society.

What makes a regime totalitarian is, thus, the degree to which it is unwilling to recognize a sphere of personal autonomy within which the regime will not intrude. Authoritarian regimes seek to control the overtly political actions and expressions of their subjects without insisting on dominating every aspect of their private lives.

It is hard to specify exactly how closely a regime attempting to impose central planning must approximate the ideal totalitarian model to sustain itself in power. But once a regime establishes its credibility by ruthlessly suppressing even its potential opponents, it can command a general level of obedience that will allow it to retain power even if it reduces somewhat the degree of totalitarian control it attempts to impose on its subjects. Thus, after Stalin and Mao established themselves in power, their successors could relax somewhat their grip on society with-

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out appearing at first to lose any real control.

In China, the reintroduction of limited degrees of private ownership and free markets led to a limited relaxation of totalitarian controls in other spheres of life. But this relaxation eventually led to a clash between the public seeking further liberalization and the regime. The regime then had to choose between yielding to public opposition or reasserting its control by brute force. Determined not to surrender power at any cost, the regime ordered the massacre of Tiananmen Square and has since reversed its economic liberalization and reimposed totalitarian controls on the population. However, the population now knows how widespread opposition to the regime is, and the experience of the past several years in China and other socialist states has revealed the brittle nature of the regime's hold on power. A political awareness and a conscious opposition to the regime has grown up which will not easily be crushed without an even harsher repression and a more complete reversion to totalitarian methods of control than the regime has yet been willing to adopt. Events in China may well follow the pattern of the first Solidarity uprising and the ultimately unsuccessful martial-law crackdown by the Polish Army.

In Eastern Europe, periodic demonstrations of Soviet power were required to suppress popular uprisings which sprang up against the totalitarian puppet regimes that Soviet armed forces imposed on the indigenous populations. Overwhelming Soviet power in Hungary in 1956 demonstrated the futility of popular revolt against the Soviets, and the 1968 invasion of Czechoslovakia demonstrated the impossibility of dismantling the totalitarian system by a process of internal reform even within the framework of avowed allegiance to Moscow.

Solidarity Succeeds

The turning point was the challenge by Solidarity to the Polish authorities in 1980. Coming on the heels of the Soviet invasion of Afghanistan which had reawakened fears of Soviet power in the West and had endangered Soviet hopes for obtaining Western credits to prop up its failing economic system, the Soviets were unable to crush the Solidarity movement so quickly and decisively as they might have had they not been militarily committed on their southern border, or unwilling to risk a crisis in relations with the West. By the time the Soviets could engineer the suppression of Solidarity through the martial-law regime of General Jaruzelski, Solidarity had established itself as a permanent alternative force within Polish society that could not be crushed by Polish resources alone. No longer able to impose its will arbitrarily in Poland, checked militarily by the Afghan resistance, its economic situation deteriorating steadily, the Soviet regime became increasingly vulnerable to internal and external pressures.

It was in this deteriorating situation that Gorbachev took power. His calls for glasnost and perestroika were an open acknowledgment of the crisis in which the Soviet Union found itself. What he may have hoped to achieve when he took up the cause of reform, it is impossible to say. However, by assuming a reformist role and seeking to exploit it to his own advantage in the West, he sacrificed the option of taking the brutal measures that would have been necessary to reinforce the crumbling Soviet position in Eastern Europe. When it became clear that Poland would dissolve into chaos and bankruptcy if the military regime did not negotiate a settlement with Solidarity, Gorbachev had no choice but to acquiesce, since the use of Soviet forces to restore Communist control was no longer possible. But once Communist control over Poland was surrendered peacefully, Communist rule anywhere else in Eastern Europe became unsustainable, because that rule had all along been based solely on the fear of Soviet armed intervention. The rapid unraveling of those regimes was a foregone conclusion once the Soviet military threat was removed.

And, of course, the end of Communist control within the Soviet Union itself now seems inevitable, though what will replace it is not at all clear. However limited the policy of glasnost may have been in its original conception, tolerating a freer flow of information, which for the first time allowed grievances against the regime to be aired publicly, has irreparably undermined the bedrock of totalitarian control.

Eliminating the mechanisms for totalitarian control has not automatically restored the mechanisms for rational decision-making. That will require dismantling the entire apparatus of state ownership of resources and central planning, in short the repudiation of socialist ideology and a more-or-less open embrace of capitalism. But in

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". . . without a legal system that will protect private property rights, the transition from a command to a market economy cannot even begin."

the current situation in which totalitarian control is no longer exercised by the regime, the impossibility of making rational economic decisions combined with the nearly total destruction of all spontaneous social institutions that, in a healthy society, preserve some tolerable state of peace and order make the continued disintegration of the Soviet Union into deepening chaos and civil strife almost inevitable.

Property Holds the Key

Until the Soviet authorities are prepared to recognize private property rights in all resources and to tolerate free markets, no amount of aid or technical assistance from the West can stop that disintegration which is a necessary consequence of the irrationality of decision-making and of the dismantling of the totalitarian controls that enforced a brutal peace on the Soviet population for almost 70 years. Unfortunately, having laid waste to society and its institutions, the Soviet regime cannot now simply will back into existence the complex web of institutions that are necessary for a society to function normally.

Private property cannot be created by fiat. It is an institution which has slowly evolved together with systems of law over millennia. That evolution was violently and unnaturally aborted when the Soviet state abolished private property and instituted a system of socialist law—a kind of anti-legal system—antithetical at its very soul to the concept of an impartial rule of law. But without a legal system that will protect private property rights, the transition from a command to a market economy cannot even begin. Even the 500-day plan of Stanislav Shatalin and Boris Yeltsin provides no mechanism for creating the legal and institutional preconditions for privatizing the Soviet economy. And it may be that there is no way out of this dilemma short of allowing foreigners to buy and operate Soviet property in accordance with the home legal systems of the new foreign owners.

Thus, the last few years have belatedly provided the empirical vindication of the Mises-Hayek-Robbins critique of socialist central planning. Such a system is indeed impossible in the sense that no community would freely submit to it when given the opportunity to choose a different system either by a free vote or the opportunity to emigrate freely. Indeed, only by creating a totalitarian system of social control were systems of centrally planned socialism able to remain in power. Those economic systems truly were a road to serfdom.[2]

Unfortunately the roads did not stop at serfdom, but went beyond it to something even worse. Those systems proved to be so irrational and so unworkable that even the most oppressive totalitarian systems of social control ever devised have proved unable to save them. Whether the free institutions of private property, voluntary market exchange, and democratic choice can be re-instituted rapidly enough to prevent the complete dissolution of the Soviet Union into chaos and civil war may well be the most urgent question of the last decade of a century so blighted by its earlier irrational crusade against those institutions. □

1. In fact, it is now universally believed that the estimates of Soviet economic growth that were generally accepted by the academic and intelligence communities in the West were inflated by at least 50 percent. While the illusion of rapid economic development was created, the Soviet Union never succeeded in rising above levels common in the Third World.

2. It was a vulgar mistake to have misinterpreted Hayek as saying in *The Road to Serfdom* that any government intervention in the economy would inevitably lead to totalitarianism or that there is a perfect correlation between the degree of economic intervention by the state and the absence of political and personal freedom. What Hayek said was simply that to institute a system of thorough-going central planning would prove to be incompatible with the maintenance of democracy and of the civil and personal freedoms taken for granted by most citizens in Western democracies. On this point he was, as Keynes once said of Franklin Roosevelt, not only right, but magnificently right.

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Why Communism Failed

by Bettina Bien Greaves

Editors' note: This article, written for FEE's op-ed program, has been carried by newspapers in Alabama, Arkansas, California, Indiana, Missouri, New Jersey, New York, Pennsylvania, and, in Spanish-language translation, in New Mexico, New York, Mexico, and the Dominican Republic.

Three years after the Russian Revolution, an Austrian economist, Ludwig von Mises, argued that Communism would fail and explained why. Communism, or socialism, couldn't succeed, Mises wrote in 1920, because it had abolished free markets so that officials had no market prices to guide them in planning production. Mises was relatively unknown when he made his controversial forecast, but he acquired some international renown later as the leading spokesman of the Austrian (free market) school of economics. Since his death in 1973, his theories have gained new adherents, some now even in Eastern Europe.

The Soviet Union was launched with high hopes. Planning was to be done by a central committee, insuring plenty for everyone. The state was to wither away. But things didn't work out that way. The Soviet state soon became one of the most oppressive in the world. Millions of Russians starved in the 1920s and 1930s.

As Mises pointed out, the raw materials, labor, tools, and machines used in socialist production are outside the market. They are owned by government and controlled by government planners. No one can buy or sell them. No market prices can develop for them because they aren't exchangeable.

Modern production is time-consuming and complicated. Producers must consider alternatives when deciding *what* to produce. And they must consider various means of production when deciding *how* to produce. Raw materials, tools, and machines must be devoted to the most urgent projects and not wasted on less urgent ones.

Consider, for instance, the planning of a new railroad. Should it be built at all? If so, where? And how? Is building the railroad more urgent than constructing a bridge, building a dam to produce electricity, developing oil fields, or cultivating more land? No central planner, even with a staff of statisticians, could master the countless possibilities. Machines might be substituted to some extent for labor; wood, aluminum, or new synthetic materials might be substituted for iron. But how will the planners decide?

To make these decisions, planners must know the relative values—the exchange ratios or market prices—of the countless factors of production involved. But when these factors are government-owned, there are no trades, and thus, no market prices. Without market prices, the planners have no clues as to the relative values of iron, aluminum, lumber, the new synthetics, or of railroads, oil fields, farm land, power plants, bridges, or housing. Without market prices for the factors of production, the planners are at a loss as to how to coordi-

Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education. From 1951 to 1969 she was a regular participant in Ludwig von Mises' graduate seminar in economic theory at New York University.

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nate and channel production to satisfy the most urgent needs of consumers.

More than 70 years have passed since the Russian Revolution and 45 years since the end of World War II. Why then do the Russian people still lack adequate housing and many everyday items? Why does agricultural produce rot in the fields for lack of equipment to harvest and transport it? Why are factories and oil fields so poorly maintained that production declines? Because the raw materials, tools, machines, factories, and farms are not privately owned. Without the bids and offers of private owners, prices reflecting their relative market values cannot develop. And without market prices, it is impossible to coordinate production activities so that the goods and services consumers need will be available. That is why Communism fails.

In a competitive economy, where factors of production are privately owned, these problems are solved daily as owners calculate the monetary values of the various factors and then buy, sell, and trade them as seems desirable. As Mises wrote in 1920, "Every step that takes us away from private ownership of the means of production and from the use of money also takes us away from rational economics."

Today, even Communists are coming to recognize that Mises was right. The U.S.S.R., a socialist society without private property and monetary calculation, is still "floundering in the ocean of possible and conceivable economic combinations," as Mises foresaw in 1920, "without the compass of economic calculation." Will she now take the important step Mises recommended of introducing private ownership of the means of production? □

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Foreign Investment Helps Americans

by Cecil E. Bohanon and T. Norman Van Cott

Americans' fear of foreigners owning U.S.-based economic wealth has taken on epidemic proportions. Never mind that past periods of rapid U.S. economic growth have been accompanied by foreign investors' active participation in the economy, the fear that "they" will own "us" is now endemic to the U.S. economic culture. Not surprisingly, political and media entrepreneurs have trotted out various proposals for government to restrict foreigners' access to "our" wealth.

Support for these proposals is usually grounded in nationalistic rhetoric. That the United States lacks such restrictions, for example, is characterized as unilateral economic disarmament. Foreign investors, in turn, are equated with foreign economic armies. All in all, the perspective on foreign investment is one of foreign investors re-slicing the U.S. economic pie in their favor and against Americans.

For the most part, opponents of foreign investment restrictions leave this re-slicing perspective unchallenged. Instead, they contend that Americans' current concern over foreign investment is much ado about nothing, because the fraction of foreign-owned assets in the United States remains small despite the substantial new investment of recent years.

While the opponents' statistics are correct, their tacit acceptance of American losses needlessly cedes the debate's higher ground. In a debate charged with nationalistic fervor, countenancing foreigners looting the American economy as long as the booty is within "manageable proportions" cedes the outcome before it begins.

This weak-kneed posture is unnecessary. Rather than looting the economy, foreign investors increase Americans' economic pie. Restricting foreign investment would diminish the pie because it would weaken a linchpin in the institution of private property—namely, the right to transfer ownership that resides with individual owners. Leaving this right unencumbered increases the likelihood of ownership of productive resources flowing to those who use resources most productively. While foreign investment does not provide Americans with free lunches, it makes for better helpings.

A Foreign Investment Scenario

Suppose an American, Mr. Brown, decides to sell his chain of XYZ Hardware Stores and retire to Florida. Two suitors wish to buy XYZ, an American firm and a Japanese firm. The Japanese make the higher bid. In choosing to sell XYZ, Mr. Brown obviously believes that he is better off. More important, by selling to the Japanese, he is better off compared with being limited to the American firm's lower bid.

Note that Mr. Brown is *not* selling "our" hardware stores. He is selling *his* stores. Even though the Japanese will receive XYZ's future profits, this in no way disadvantages "us." Prior to the sale, XYZ's profits were Mr. Brown's, *not* "ours." Tax or other obligations attached to ownership of XYZ are not nullified by the sale; such obligations become the responsibility of the Japanese.

The Japanese are able to offer the higher bid for XYZ only to the extent XYZ will be more prof-

Professors Bohanon and Van Cott teach in the Department of Economics, Ball State University, Muncie, Indiana.

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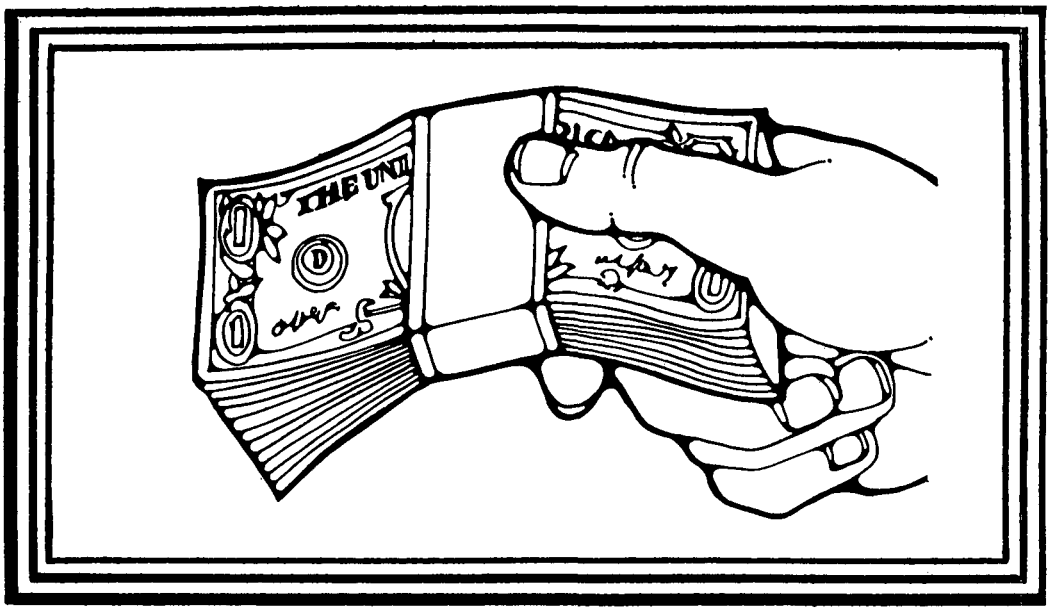

itable under their ownership compared to alternative ownership. There are two possible sources for this increased profitability: the Japanese offer a more attractive product and/or they decrease XYZ's costs. Mr. Brown participates in this increased profitability by accepting the Japanese bid. So do the Japanese, their portion providing them the incentive to buy out Mr. Brown.

Less apparent to many, perhaps, is that other Americans also share in the expansion of the economic pie. If the Japanese offer more attractive retailing services to American consumers, these consumers are obviously better off. On the other hand, a decline in XYZ's costs also raises Americans' living standards. Since costs are lower, if the Japanese keep XYZ's output at its pre-acquisition level, fewer inputs will be required. Because the inputs released from XYZ necessarily have alternative production capabilities, Americans will be able to enjoy the original hardware store output *plus* additional amounts of other goods and services.

The improvements foreign investors confer on Americans are similar to what happens with technological innovation. New technologies also lead to better products and/or lower costs of producing existing products. Interestingly, it is not unusual for entrepreneurs who adopt new technologies to encounter "sky is falling" resistance similar to that engendered by foreign investment. The difference is that anti-technology crisis mongers assert that labor-saving machines rather than foreign investors swallow up economic wealth.

Whither Freedom?

A curious irony attaches to foreign investment restrictions. While their ostensible purpose is to increase "national independence," their end result is to reduce individual freedom. Abrogating Mr. Brown's ability to sell his hardware store to whom he pleases, on terms that are suitable to him, is equivalent to confiscating part of Mr. Brown's property.

Private property rights have been the bedrock of the American economic and political system. They are the reason thousands of Mr. Browns worked and saved to establish productive enterprises. To take away these rights, even partially, insures that Americans have a smaller economic pie. It is hard to conceive how "our" interest is served by less freedom and lower living standards. □

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Term-of-Office Limits Won't Reduce Government Abuse

by Gary M. Galles

Public outrage at an increasingly irresponsible government, especially at long-term incumbents who seem immune to re-election pressures, has led to a rising wave of sentiment to limit the number of terms elected officials can serve. An Oklahoma term limitation initiative received 67 percent of the vote last September, and similar referenda in November won in California (53 percent) and Colorado (71 percent).

Term limitation measures will clear out those who cannot grandfather themselves in, throwing many of those symbolizing the system's failings out of office (probably into lucrative lobbying careers). They also will eliminate Congressional Methuselahs in the future. But it is not clear that they will lead to a more responsible government.

Term limitations are unlikely to contribute much to fixing our nation's governance problems because these failings are primarily rooted in what the government is allowed to do, not in which particular members do it for how long. The central problem is that long-standing Constitutional constraints limiting government power have been progressively eroded, so that government has increasingly turned from being the protector of the property rights of its citizens against the violations of others to being itself a pervasive violator of those rights. The resulting ability to help your friends at others' expense leads to the abuse of government power regardless of how long any individual may stay in an elective office.

Professor Galles teaches economics at Pepperdine University, Malibu, California.

Consider Article 1, Section 8 of the Constitution, granting Congress the power to levy "uniform taxes" to provide for the "general welfare." In contrast, today's tax code is riddled with discriminatory taxes designed to burden particular subgroups of the population, following the dictum: "Don't tax you. Don't tax me. Tax the fellow behind that tree." Furthermore, a large share of government expenditures, such as the multi-billion dollar agricultural price support programs, are designed to benefit certain groups at taxpayers' expense. There is nothing in the Constitution that even hints that using general tax revenue for the provision of benefits to such special interests is a legitimate Federal function. But the fact that such policies are now considered acceptable (even commendable, by the beneficiaries) leads to abusive government.

Consider also the Fifth Amendment's statement: "nor shall private property be taken for public use, without just compensation." While this prevents the government from physically taking your property without payment, current court interpretations let the government take large parts of its value to benefit particular special interests through regulations and restrictions (such as rent-control laws, which may not physically take apartments from their owners, but which transfer much of their value to current tenants). This ability to regulate costs onto others in order to help supporters is another source of abusive government.

Similar reinterpretations have befallen other parts of the Constitution, such as the contracts and commerce clauses, which essentially have been

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transformed from barriers against government intrusion into open invitations under almost any pretext. Again, the effect has been to expand the power of legislators and bureaucrats into areas our Founding Fathers tried to put beyond their reach.

The result of such changes has been an increase in the power of a few government officials to do what our Constitution formerly ruled out, and this has led to governance that is a far cry from one primarily concerned with promoting the general welfare. Once these powers have been seized by government, concentrating them further in illimitable legislators can worsen the results. But reforms such as term limits would not solve the underlying problem: government theft (involuntary transactions where some are made worse off is a necessary corollary of violating either the takings clause or the general welfare requirement); it would only alter who would be allowed to do it.

As term limits became law, parties could control seats through a series of candidates instead of through particular party members, especially as squeezing party contributors and gerrymandering become more precise sciences. Substituting party power for that of individual members may well move our government farther from its Constitutional ideal. Term limits could also make legislators even more keenly aware of their future job prospects, increasing special interest influence over those involved in current legislation. Further, making all elected officials more transitory would increase the power of the unelected, permanent bureaucracy, hardly a prescription for more responsible government.

Reforms such as term limits attempt to address aspects of irresponsible government that are unfortunately far from its core. Unless the Constitution's restrictions on government powers are taken more seriously, term limitations will do little to produce a more responsible government. In fact, absent a return to the more limited role for government envisioned in the Constitution, there are no "reforms" that are likely to substantially reduce government abuse. □

IDEAS ON LIBERTY

The Nature of Political Power

When the nature of political power is put under the microscope of analysis, its incorrigible penchant for predation becomes understandable. For then one sees that political power is not "in the nature of things," but in the nature of man. It is not, like the force of gravity, self-operating and inexorable, but is an expedient devised by man to facilitate his urge for acquiring satisfactions with the least expenditure of labor. In essence, political power is the physical power, or the threat of it, that one man or a group of men may bring to bear on other men to effect behavior. It may originate in a body of social sanctions, but it is hardly political power until these sanctions are implemented with a police force. In any case, it is exercised by human beings, and therefore must be related to the all-pervasive law of human action, the drive to get the most for the least.

—FRANK CHODOROV
"A Case of Corruption"

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Economic Development or Economic Disaster?

by Bill Anderson

In the past decade, Chattanooga's downtown district has undergone a virtual face lift. Parks have been created, trees have been planted, new buildings have been built, and old ones improved. The city and county governments have constructed a gleaming trade and exhibition center with a high-rise hotel attached, while the Tennessee Valley Authority, a Federally owned utility, built a massive downtown office complex. A city-owned downtown theater was restored to mint condition, recalling the grandeur of 1920s architecture. Construction companies—some owned by blacks—helped renovate downtown store-fronts, making them more attractive to shoppers; and developers rebuilt aging and decrepit office buildings.

Much of this downtown "redevelopment" was financed by grants from the federal government, more specifically, from the Department of Housing and Urban Development (HUD) through the Urban Development Action Grant (UDAG) program, which was touted as a "public/private partnership." If one were to compare the attractiveness of Chattanooga's downtown to its less glamorous condition in 1980, one most likely would say that the Federal grants were both necessary and beneficial. That is certainly what local officials, a local newspaper editor, and private civic leaders believe.

In fact, to argue against these grants is to argue against progress and development, according to our leaders, yet that is precisely what we are going to do. Many of the policies for downtown development followed by Chattanooga's city officials during the last decade have been economically unsound, reflecting a faulty theory of economic development. And Chattanooga's leaders have simply followed the path set by nearly every large and mid-sized municipality in the United States.

Bill Anderson teaches economics at the University of Tennessee-Chattanooga.

Allocation of Resources

A basic premise of market economics is that people, given the opportunity to make free choices, will use resources in a way that will draw them from lower-valued to higher-valued uses. For example, raw petroleum pumped from the ground is nearly useless as a consumer good; petroleum that has gone through the refining process has a number of highly valued uses such as powering vehicles, heating homes, and helping create electricity. Petroleum is also used to make important products such as plastic, polyester, and nylon.

How does one decide the "appropriate" use for petroleum? After all, oil used for plastics or polyester cannot also be used to heat a home in Maine on a blustery winter day. In short, there are competing uses for oil, uses that are determined by the price system. Producers determine the mix for products according to the level of potential profitability for each. Appropriateness is determined

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by price, not by political decisions. (In fact, when the Department of Energy controlled domestic oil prices and allocation a decade ago, its "appropriate-use policies" caused considerable dislocations in oil markets.)

The appropriate uses for Chattanooga's downtown, however, have been decided by a different method, one in which economics has been co-opted by the phenomenon of "political investment." City officials, encouraged by numerous sectors of the community, have sought to remake the center city into a place that reflects an image of prosperity and sophistication. In this case, "appropriate uses" reflect political, not economic use of resources.

Downtown History

From the turn of the century through World War II, Chattanooga's downtown was both residential and a shopping center. Like many other U.S. cities, its downtown was declining by the late 1970s. Shoppers now preferred the many attractive and convenient shopping malls that had sprung up during the decade. By the mid-1980s, Miller Brothers had left its large downtown store, J. C. Penney was gone, and Sears had announced it was leaving for the new regional mall, Hamilton Place. Only one large retailer, Loveman's, remained committed to the downtown.

But the big retailers weren't the only ones having financial problems in the center city. Small merchants, too, were struggling, as were the downtown movie theaters, which finally closed their doors. Empty store-fronts dotted the city, causing concern for local politicians and civic leaders. From that concern sprang a number of Federally funded projects to "revitalize" the downtown.

The first large-scale project tore up a section of Market Street, removing on-street parking areas, and constructing wide sidewalks patterned after pedestrian malls. For more than a year, a four-block section of Chattanooga's busiest downtown street was barely passable or closed altogether. The significant effect of the project, ironically, was to drive shoppers from the area. Merchants—who were supposed to receive the primary benefits from the new, attractive downtown—complained that they weren't making enough money to stay in business. Indeed, some merchants were forced to close. Those who remained became eligible for Federal funds to redesign their store-fronts. One merchant, in particular, spent large sums of both his own money and taxpayer funds to change the exterior of his two shops. Both were bankrupt within a year. Shoppers complained that the new pedestrian-oriented market center eliminated many parking spaces, making it even more difficult for them to shop downtown.

Fortunately, not all the downtown redesigning came from the taxpayers. Blue Cross-Blue Shield of Tennessee, a health insurer, purchased the Miller Brothers building and renovated it into an architecturally pleasing office complex. A local developer turned the Sears property into an office building. Both projects have been financially successful, and neither was built at taxpayer expense. But these were exceptions.

At the southern end of the downtown business district is an old railroad freight depot. In the early 1980s it was used as a railroad salvage company where consumers sought bargains by purchasing damaged goods. The large facility wasn't aesthetically pleasing, but it was a popular place to shop.

Developers from a northern city saw the facility as a potential renovated up-scale shopping center, and set to work using financing obtained through HUD. What emerged was a sparsely attended mall that went bankrupt within a few years—and still stands empty today. According to city officials, the up-scale mall was more economically "appropriate" than the railroad salvage company. Consumers, however, had their own opinions about what was the more appropriate use of the facility.

None of the Chattanooga UDAG projects has met with near the success projected on their grant applications. This is hardly surprising. The Chattanooga experience mirrors that of the rest of the nation, as scores of UDAG projects, including luxury hotels and housing developments have gone bankrupt or faced severe financial problems.

Why the high rate of failure? The answer is found in the price system, which moves resources from lower-valued to higher-valued uses. When given free choice in a market system, consumers decide appropriate uses of resources. In the case of Federally funded projects in our city, however, consumer choice wasn't considered. Projects were funded not because they seemed to be good business investments, but because they were supposed to create jobs and make the downtown area more attractive.

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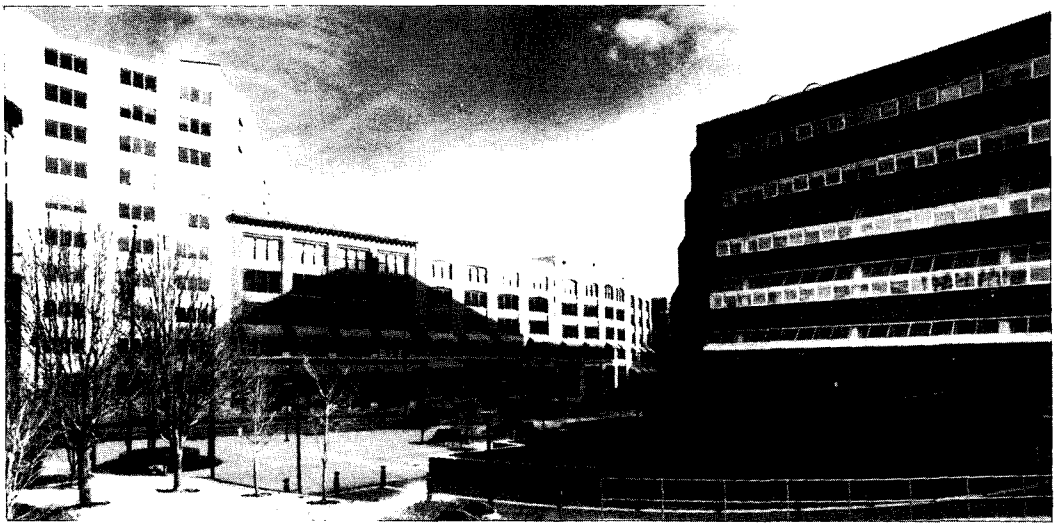

ROBIN RUDD

Warehouse Row and TVA complex, Chattanooga.

Capital Malinvestment

These failed UDAG projects are malinvestments of capital. *Malinvestment* has been used by the Austrian school of economics to describe capitalization during an economic boom that has been triggered by a monetary expansion caused by the nation's central bank. The tool for monetary expansion is below-market interest rates. In the case of UDAGs, the key to attracting developers has also been the promise of below-market rates of interest. Because a lower (i.e., subsidized) rate of interest means a lower debt service, developers supposedly will have a greater chance of profit.

However, full conventional financing for such projects is usually not available because of their high risks, which reflect their potential profitability. In other words, markets for many of these projects are, at best, weak because of factors that have nothing to do with interest rates. Markets reflect demand and potential demand of consumers, and if demand doesn't exist, lower lending rates won't suddenly make those projects more appealing to the buying public.

Profitability, unfortunately, has become subordinate to political wishes. Thus, precious capital has been invested in projects of questionable merit, and taxpayers are the losers. In Chattanooga's case, the city government did not invest large sums of local tax revenues, so the local liability, while significant, doesn't threaten the fiscal health of the city. However, politicians from other municipalities, anxious for any downtown development, have staked city funds as well as Federal money for risky projects, and the economic cleanup costs will be very high for many cities.

Supporters of downtown development, when faced with the arguments given here, reply that if millions of Federal dollars had not been poured into Chattanooga's downtown, then the area would have further deteriorated, thus hurting the city's image. In other words, while the results haven't been as successful as projected, leaving the center city to the whims of private, conventionally financed developers would have made things even worse.

Such reasoning, however, begs the question. To move capital from *higher*-valued to *lower*-valued uses, as was done with most of the Federally sponsored development, will usually result in long-run problems. Malinvested capital brings about projects that cannot stand by themselves in a market, projects that ultimately must either be permanently subsidized or allowed to fail.

Allowing a free market solution to downtown development, whether in Chattanooga or anywhere else, will not necessarily produce results that mesh with the visions of politicians or civic leaders. Stores may stand empty for a time while developers ponder other uses for the property. What appeals to an investor may not appeal to a city planner. But, in the end, uses that keep the market in mind will most likely be more profitable and beneficial to the city's development than those based on political wish lists. □

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A REVIEWER'S
NOTEBOOK

Dubcek

by John Chamberlain

William Shawcross, the author of *Dubcek* (Simon and Schuster, 244 pages, $22.95 cloth, $10.95 paper), has seen it all in central Europe. In the summer of 1968, a 22-year-old graduate of Oxford, he traveled with his sister on a student train to Prague. He had lucked in on what would soon be known as the Prague Spring. The trip, as he says, changed his life. Let him describe his sensations:

> Like anyone who has ever been there, we were overwhelmed by the faded but then blooming summer beauty of the city—the dark narrow streets of the Old Town and the Jewish quarter where Kafka lived, the graceful statues on the Charles Bridge, the tiny lanes winding up the hill to Prague Castle and the cathedral. From Prague we took long rides on rattling buses and on ironclad steam trains, marvelous behemoths.... We rumbled through long fields of corn ready to be harvested, in and out of dark pine forests where the cart tracks meandered across the rails . . . most of all I remember the extraordinary *joie de vivre* of almost everyone we met. The joy of talking and of being allowed to remember—and to hope! . . . I had never seen such a bubbling of hope and excitement. I remember one countrywoman looking with astonishment at photographs of the Masaryks I had brought from Prague. "Six months ago we were not allowed to know that these men existed." That the Communist Party of all institutions was offering such freedoms! It was too good to believe!

Over long jugs of black beer everybody in the beer halls showed contempt for the Russians. Special toasts to Alexander Dubcek were drunk over and over again.

The Prague Spring became the Prague Autumn on a night in August when, on orders from the Kremlin, some 200,000 troops of the Soviet Union, Poland, East Germany, Hungary, and Bulgaria crossed four frontiers into the Czechoslovak Socialist Republic. The charge from the Kremlin was that the Communist Party in Prague had lost control of the nation because Dubcek had lost control of the party. Dubcek was portrayed as a "weak and mindless" man who had fallen into the clutches of such "vicious agents of imperialism" as Dr. Ota Sik. Dubcek was not accused of leading a counter-revolution, but of "allowing a counter-revolutionary situation to develop."

Dubcek was dragged off in handcuffs to Moscow, where he uttered a cry of anguish "that they should have done this to me, after I have devoted my whole life to cooperation with the Soviet Union." It was, he said, "the great tragedy of my life."

The unity of Czechs and Slovaks prevented the Russians from installing a puppet traitor, but Dubcek was forced to make an agreement with the Soviets. Shawcross and his sister returned to Prague in the winter of 1968-69. The Russians were using "salami tactics," whittling away the measures of the Prague Spring one by one. Freedom of the press had crumbled. Shawcross, on a wet afternoon, walked up the slope of Wenceslaus Square to the statue of King Wenceslaus, which

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had become a shrine since a boy had been shot there by the Russians as he pushed a Czech flag down the barrel of a tank during the invasion. A Czech student, Jan Palach, had set himself on fire, as a fierce rebuke to compromise. In April of 1969, after ferocious demonstrations that marked the defeat of the Soviet ice hockey team by the Czechs, the Russians finally removed Dubcek and replaced him with Gustav Husak, his enemy. At this point Shawcross decided to write a book about Dubcek.

Under Husak and pressure from the Brezhnev regime, Czechoslovakia became once more one of the most viciously and stupidly run countries in Europe. More than 120,000 Czechoslovaks went into exile, and a half million who stayed became "non-persons." Writers became window cleaners, doctors became porters. Nothing changed until the advent of Gorbachev.

Shawcross's biography was published in 1970. His principle criticism of it today is that "I did not realize . . . that the experiment of humane Communism, or Socialism with a Human Face, was impossible, or even a contradiction in terms." He now says he was naive. "The last twenty years," he says, "have shown us nothing so much as the catastrophic nature of Communism everywhere . . . wherever Communism has triumphed . . . Vietnam, Cambodia, Laos . . . its consequences have been utterly disastrous. . . ."

For his new edition, Shawcross has provided an afterword. Dubcek had been banished to an insignificant forestry job. By now another man, Vaclav Havel, a playwright, had emerged as the moral spokesman of Czechoslovakia. The European Parliament, however, had not forgotten Dubcek, who was flown to Strasbourg to receive the Sakharov Prize.

Together, on November 24, 1989, Havel and Dubcek appeared on a balcony overlooking Wenceslaus Square. It was, says Shawcross, "a remembrance of youth and optimism." Standing beside Dubcek, Havel was equally cheered by the crowd. Within three weeks of their appearance on the balcony "the Stalinist structures of Czechoslovakia had been swept away by the tidal wave of reform which was roaring across Eastern Europe in the last months of 1989." Dubcek had been appointed Chairman of the Federal Assembly. It fell to him to propose a single candidate for the Presidency of Czechoslovakia—Vaclav Havel. In Havel's words, "history began again for Czechoslovakia."

What happened in 1968, says Shawcross, "was a flawed experiment. 'Socialism with a Human Face' could not have worked; people would have wanted more—a human government without socialism. But Sakharov was right: Dubcek was an inspiration and the Prague Spring did indeed provide an exhilarating breath of freedom."

Ota Sik, Dubcek's economic counselor, was right, too. His New Economic Model didn't go far enough to champion a complete free market society. But the hints were there. □

THE POLITICS OF RICH AND POOR: WEALTH AND THE AMERICAN ELECTORATE IN THE REAGAN AFTERMATH

by Kevin Phillips

Random House, 400 Hahn Road, Westminster, MD 21157
1990 • 262 pages • $19.95 cloth

Reviewed by Ben Asa Rast

Don't let the politicians and economists confuse you. There are only two moving parts to our economy. One creates wealth. The other just moves it around. The first part is made up of people buying and selling goods and services in mutually agreeable, mutually beneficial transactions. Everyone wins, nobody gets hurt, and wealth is created. This is the part of the economy where, as Murray Rothbard says, "The greater a man's income, the greater his service to others."

The second part of our economy doesn't create wealth. It moves wealth around by force. When a thief moves money, we call it a crime. When a politician does it, we call it government policy. In this part of the economy there are winners and losers, and each transaction is accomplished by coercion. Here, the greater a man's income, the greater his ability to force other people to give him money. The most violent disagreements in crime and politics are about dividing up the loot.

This simple, two-part economic system means there are two ways to accumulate wealth: you can earn it or you can steal it. Unfortunately, too few people make the distinction. A primary case in

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point is Kevin Phillips, author of the best-selling *The Politics of Rich and Poor.*

Phillips cites lots of statistics trying to prove that there is a growing disparity between rich and poor. He argues that government policies redistributed income from the poor to the rich during the 1980s. The problem is he never distinguishes between the rich who earned their wealth and those who had it redistributed to them. And that's a big difference.

Phillips assumes that all wealth comes at the expense of the poor via government policy. This assumption isn't just unfair, it's absurd. And it's too bad, because the point he's trying to make is emotionally appealing and morally correct: government should *not* take money from the poor and give it to the rich.

Most of us would agree that it's immoral for the government to plunder the poor for the sake of rich. But it's immoral to steal anything from anybody, rich or poor. The bottom line is that government policies shouldn't redistribute wealth up *or* down the economic ladder. Rich and poor people should be allowed to keep what they earn, and give away what they want.

Now if government policies were the only way to get rich, Phillips might have a point. But remember that new wealth is not the result of government intervention; it springs from creativity, service, and risk-taking. Lots of wealthy people earn their money by serving others. How can anyone justify taking money from them, or anyone else for that matter?

Phillips tries to strike an objective, analytical tone that hides his biases against free enterprise, rich folks, and Ronald Reagan. And he is really after Reagan more than anything else. The whole book seems designed to pin income inequality on Ronald Reagan. Perhaps the Reagan Administration did redistribute income—that's what politicians do—but to imply that government policies moved all the wealth to the rich is nonsense. Many people made money in the 1980s because they worked hard, not because some bureaucrat had his hand in a poor person's pocket.

Phillips just doesn't understand free market economics. His ignorance is especially obvious when he constantly confuses the term "capitalist" with "Republican." Some Republicans are capitalists (so are some Democrats), but not all capitalists are Republicans. Phillips never takes the time to make an intelligent distinction between these terms. He just lumps Republicans and capitalists under one label, even though he admits that Richard Nixon followed a rather populist set of policies, and it was Jimmy Carter who started the process of deregulation.

Another example of Phillips' misunderstanding of economics is when he calls a tax cut a redistribution of income from the poor to the rich. Clearly, when the government lets rich people keep more of what they earn, that doesn't mean it is taking money from poor people.

This book is flawed because Phillips condemns the worthy with the unworthy. But to condemn the productive part of our economy for enabling people to become wealthy is bad economics and misguided public policy. □

Mr. Rast is a financial advisor with Prudential-Bache Securities and a Fellow of the Committee for Monetary Research and Education.

AGRICULTURE AND THE STATE: MARKET PROCESSES AND BUREAUCRACY

by E. C. Pasour, Jr.

Holmes & Meier, 30 Irving Place, New York, NY 10003
1990 • 258 pages • $39.50 cloth, $19.95 paper

Reviewed by Brian Summers

Federal agricultural programs cost American taxpayers billions of dollars a year, and add hundreds of dollars to the average family's food bill. Yet few people are more than vaguely aware of these programs, and almost no one outside academia has a real handle on how they work. Now, however, E. C. Pasour, Jr., a professor of economics at North Carolina State University, has produced a superb analysis of U.S. agricultural policy that is scholarly yet readily accessible to the lay reader.

Pasour begins with a fundamental question: What is the role of economic theory in agricultural policy analysis? The answer, he says, depends on how you view economics. If you try to measure real-world agricultural markets against the norm of perfect competition, they will be found woefully lacking because "perfect competition" is an idealized, artificial construct. If, however, you view competition in terms of market processes—as competitors trying to outdo one another—then economics can tell you a lot more about the merits

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of free markets versus centrally planned systems.

Pasour then turns to public choice theory, the study of how economic principles explain political decisions. He shows that there is a bias in the political process in favor of programs where benefits are immediate and concentrated on a special-interest group, and costs are deferred and spread over the general public. A classic example is the sugar program, which yields enormous gains for a few thousand U.S. producers, while spreading the costs over 250 million U.S. consumers.

It is much the same with other agricultural programs. Tobacco growers and peanut farmers, for example, have their marketing quotas. Farmers who grow wheat, cotton, peanuts, tobacco, rice, feed grains, milk, soybeans, wool, mohair, or honey have price supports. The list is seemingly endless. If you (or your father or grandfather) got in at the right time, you probably are doing very well.

But many farmers aren't doing especially well. For every farmer who has an acreage allotment, there are farmers who are legally locked out by the system. Each increase in price supports encourages more intensive farming, which drives up costs, misallocates resources, and depletes the soil. What value is it to a poor farmer if support prices are capitalized into the price of farmland, so he can't afford to buy or even rent land? Tobacco price supports, for example, have raised some yearly rents by over $1,000 an acre.

Of course, the federal government has an alphabet soup of credit agencies ready to "help" farmers. But when a farmer can't get a loan in the private sector, and has to turn to government-subsidized credit, doesn't that say something about his ability to repay a loan? Is the government doing a farmer a favor when it encourages him to expand beyond his means, as many farmers were encouraged in the 1970s?

Pasour covers these and just about every other economic aspect of U.S. farm policy, including an excellent chapter on international trade and one discussing the merits of private versus government-subsidized crop insurance schemes. However, although his analyses clearly lead him to the free market position, he limits his policy prescriptions to a few comments. For this type of book, where the message is in the analysis, this is ideal. □

Mr. Summers is a Senior Editor of The Freeman.

MARKET SOCIALISM: A SCRUTINY

by Anthony de Jasay

London: Institute of Economic Affairs; North American Distributor: Atlas Foundation, 4210 Roberts Road, Fairfax, VA 22032 • 1990 • 35 pages • $8.00 paper

Reviewed by Peter J. Boettke

In this brilliant essay, Anthony de Jasay critically examines the proposals for "market" socialism offered by a leading group of British socialist academics. With the failure of "real existing" socialism evident throughout the world, socialist theorists have been working overtime to salvage their ideal. As the East European countries move to market-based social systems of production, many men of action as well as of ideas will try to maintain the socialist system of distribution. The welfare state is basically what is left of socialism after the lessons of its 70-odd years of experience are absorbed.

De Jasay concentrates his critique on the fundamental ambiguity of many of the proposals offered by market socialists. For example, market socialists argue for "social ownership," where the capital stock is *owned* collectively by society, but administered by a group of workers. But as de Jasay points out, social ownership if it means anything is state ownership of the means of production. So what we have at the heart of the proposal, then, is a state-owned market: an oxymoron of near-perfect dimensions. This market is then to be *controlled* by society to limit the size of firms, protect against unemployment, and insure an equitable distribution of income. This produces the fundamental promises of market socialism: "social ownership," "equality of opportunity," and "equal positive freedom." Such promises, however, are inconsistent with the existence of functioning markets. As de Jasay demonstrates, though, the advocates of market socialism that he is extensively confronting have no clue to how wrong-headed and empty their phrases are.

"Plainly," he states, "advocates of a new kind of socialism have an implausible case to plead, and their chief fault is to imagine that it is a natural winner." De Jasay concludes: "Never did a political theory, in its eagerness to escape the liabilities of its predecessor, put forward so superficial an analysis and so many self-contradictions, as market socialism. Nor does any single market

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socialist promise, let alone two, never mind all three—an efficient market economy without capitalist ownership, equality through equal opportunity without imposing equal outcomes, and free choice without freedom of contract—look capable of being fulfilled, each being an open contradiction in terms, much like hot snow, wanton virgin, fat skeleton, round square."

This slim volume is highly recommended for anyone interested in finding out what socialist thinkers are advocating these days and how empty their proposals are when confronted by logic and economic argument. □

Peter J. Boettke is a professor of economics at New York University and author of The Political Economy of Soviet Socialism: The Formative Years, 1918-1928 *(Kluwer Academic Publishers, 1990).*

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